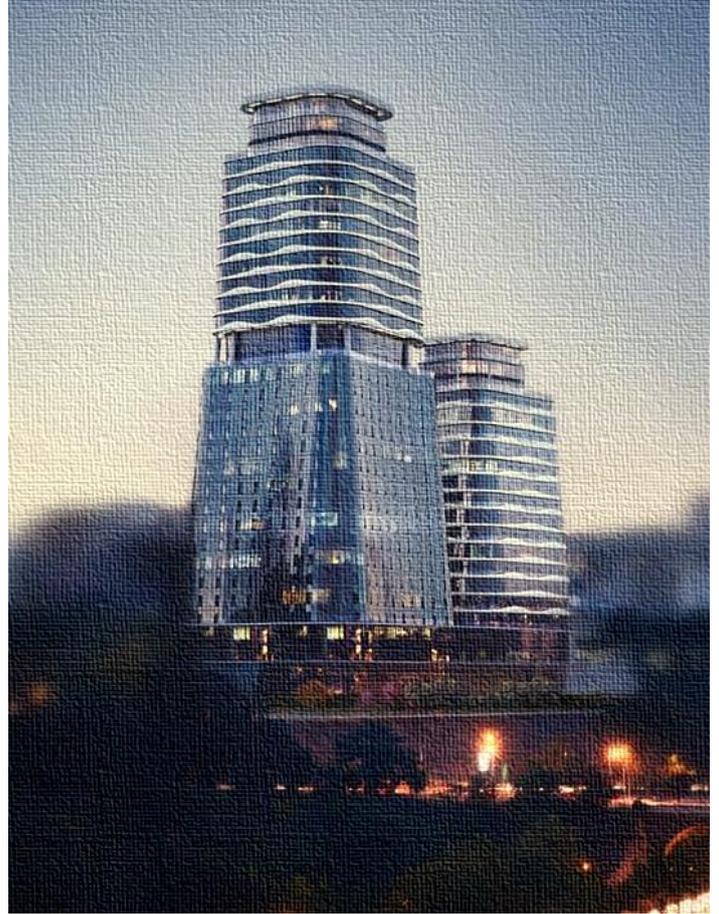


# DOING BUSINESS AND INVESTING IN GEORGIA

2019 Edition



*A guide covering everything you need to know about doing business in Georgia – from corporate and labour law to finance, regulatory matters and tax.*



# **Guide to Doing Business and Investing in Georgia**

2019 Edition

*Doing Business and Investing in Georgia*

*By PricewaterhouseCoopers Georgia LLC*

This guide has been prepared for the assistance of those interested in doing business in Georgia. It does not cover exhaustively the subjects it treats, but is intended to answer some of the important, broad questions that may arise. When specific problems occur in practice, it will often be necessary to refer to the laws, regulations and legal decisions of the country and to obtain appropriate professional advice. Whilst we have made every attempt to ensure the information contained in this guide is accurate, neither PwC nor the author can accept any responsibility for errors or omissions in the factual content. The material contained in this guide reflects the position as of November 2018.

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## Partner letter

*I am pleased to present the 2019 edition of PwC's publication Doing Business in Georgia. Georgia is very interesting country, attractive with its geographic location, history, investment and business environment. Georgia's ranking in the Ease of Doing Business 2019 among the 190 countries covered by the World Bank Group annual report slipped to the 6th position from the 9th from the last year, improving its position by 3 points.*

This guide is to provide a broad understanding of the key aspects of doing business and investing in Georgia. We answer many questions that foreign businesses and entrepreneurs have when making their first venture into the market, leveraging on our extensive experience in regards to establishing businesses in Georgia.

As a result, this publication guides you through all the key aspects of doing business in our country: the economic climate, big industries and business segments, what it is like to live in Georgia and workforce aspects. It describes the most popular legal forms of businesses in Georgia and the key aspects of tax, human resources, employment law and audit and accountancy.

However, as a guide, this publication primarily serves as a starting point. If you need more information, PwC Georgia's advisors will be very happy to assist you.

I welcome you to visit our office in Tbilisi and on behalf of PwC Georgia, I wish you every success in our country.



**Lasha Janelidze**  
*Country Managing Partner*

## Office location in Georgia



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[Google Map](#)

# Georgia Profile

1





# 1 Georgia Profile

## 1.1 Introduction

Georgia is located between Asia and Europe and occupies a land area of 69,700 sq km. It neighbours Turkey to the southwest, Azerbaijan to the east, Russia to the north and Armenia to the south.

**Capital:** Tbilisi (population: 1 118.300)

**Other cities:** Kutaisi, Rustavi, Batumi, Sokhumi, Gori, Poti, Zugdidi, Telavi.

**Ethnic groups** (2002 census): Georgians - 83.8%, Azeris - 6.5%, Armenians - 5.7%, Russians - 1.5%

**National currency:** Georgian Lari, 1 USD = approximately 2.7 GEL (according to the data of 11.15.2018)

Georgia declared independence on 9 April 1991, following the dissolution of the Soviet Union.

## 1.2 Government structure

Georgia is parliamentary democratic republic with a multi-party system. The President of Georgia is the constitutional Head of State and the Supreme Commander-in-Chief of the Defense Forces, while the Prime Minister of Georgia is the Head of Government with executive powers to lead the functions of the Government. The Parliament of Georgia is the supreme legislative body with legislative authority.

Salome Zurbashvili is a Georgian politician and former French diplomat who currently serves as the President of Georgia, in office since December 2018. She is the first woman to be elected as Georgia's president, a position she will occupy for a term of six years. As a result of constitutional changes coming into effect in 2024, Zurbashvili is expected to be Georgia's last president to be elected with direct voting.

Legislative power of the country is exercised by a single-chamber Parliament, consisting 150 seats out of which 77 members are elected through a proportional system and 73 members elected through a majoritarian system, by secret ballot, for the term of four years.

Current Speaker of Parliament is Irakli Kobakhidze.

## 1.3 Legal system

Georgia is a civil law country.

The court system in Georgia has three branches: Courts of First Instance (District or City Courts), Appellate Courts and the Supreme Court. First Instance Courts have jurisdiction over all civil, criminal and administrative cases. Decisions from First Instance Courts may be appealed to the Appellate Courts, and from there to the Supreme Court.

The Constitutional Court of Georgia is the sole organ of constitutional jurisdiction of Georgia.

As an alternative to litigation, Georgia allows for third party arbitration. Georgian law also allows foreign companies to include provisions in their contracts (including those with Georgian entities) that allow for arbitration by international arbitration institutions.

The Constitution of Georgia (Georgian: საქართველოს კონსტიტუცია, sakartvelos konstitutsia) is the supreme law of Georgia. It was adopted by the Parliament of Georgia on 24 August 1995. The Constitution replaced the Decree on State Power of November 1992 which had functioned as an interim basic law following the dissolution of the Soviet Union.

The constitutional amendments were came into effect after the country's 2018 presidential election.

Under the amended constitution, Georgia switched to a fully proportional-election system by 2024 with a 5 percent threshold required for a party to gain parliamentary mandates.

Beginning in 2025, the president will be elected by a special council of lawmakers.

Legislation governing foreign investment includes the Constitution, the Civil Code, the Tax Code, and the Customs Code. Other relevant legislation includes the Law on Entrepreneurs, the Law on Promotion and Guarantee of Investment Activity, the Law on Insolvency Procedures, the Law on Courts and General Jurisdiction, the Law on Competition, the Law on Accounting, Reporting and Auditing, the Law on Licences and Permits and the Securities Market Law.

Regulations and enforcement actions are appealable, and they are adjudicated in the national court system.

## 1.4 People

### Population

The population of Georgia is estimated to be 3.73 million as of January 2018.

### Language

Georgian is the official language of Georgia and is spoken by 71% of the population. Most Georgians, large number of Georgian executives speak English. When business transactions are conducted with English speakers, the meetings will either be conducted in English, or the company will provide a translator.

Armenian is spoken by 7% of the population, and Azeri is spoken by 6% of the population.

### Religion

Approximately 84% of Georgians are Orthodox Christian. Other religious groups include Muslims (9.9%), Armenian Apostolics (3.9%) and Catholics (0.8%).

### Georgia Break out regions

Georgia suffered considerable instability in the immediate post-Soviet period. After independence in 1991, civil war and separatist conflicts flared up along the Russian border in the areas of Abkhazia and South Ossetia. The status of each region remains contested, and the central government does not have effective control over these areas.

In August 2008, tensions in the region of South Ossetia culminated in a brief war between Georgia and Russia. Russia invaded undisputed Georgian territory and continues to occupy South Ossetia and Abkhazia.

Tensions still exist both inside the occupied regions and near the administrative boundary lines, but other parts of Georgia, including Tbilisi, are not directly affected.

### Living standards

#### Unemployment

The unemployment rate in Georgia decreased to 13.9 percent in 2017 from 14 percent in the previous year, hitting its lowest level since 2004. The labour force participation rate fell to 65.8 percent from 66.3 percent in 2017. Unemployment Rate in Georgia averaged 14.80 percent from 1998 until 2017, reaching an all time high of 18.30 percent in 2009 and a record low of 10.30 percent in 2000.

The average monthly salary in 2017 was GEL 999 and it is estimated that 21.9% of the population lived below the poverty line.

## 1.5 Economy

### General

Over the last decade, Georgia has undertaken a series of progressive reforms including anti-corruption efforts, reforms of labour and tax codes.

With a high number of business regulation reforms, Georgia has also been positively praised for its healthcare, public administration and judicial reforms. According to the World Bank's doing business 2019, Georgia's Ease of Doing Business updated rank is 6<sup>th</sup>, with EODB (Ease of Doing Business) score of 83.28. Korea Republic is ranking 5<sup>th</sup> ahead of Georgia. Norway is one rank below Georgia (7<sup>th</sup>) in the list. <sup>1</sup>

The reforms to the Georgian economy have resulted in a large influx of foreign investment. According to the GeoStat, the FDI has increased by 21% from 2016 to 2017 (1,565,837.6 thsd USD in 2016; 1,894,491.3 thsd USD in 2017). The FDI of 2017 is the highest number over past 22 years (starting from 1996). However, as for preliminary data of GeoStat for the first half of 2018, the FDI amounts to 676,230.3 thsd USD – less than 749,472.5 thsd USD for the first half of 2017.<sup>2</sup>

Based on the United State's CIA World FactBook, breakdown of GDP by sector of origin is as follows: services 67.9%, industry 23.7% and agriculture 8.2%. Citrus, grapes, tea, hazelnuts, vegetables and livestock are listed as the agricultural products. Steel, machine tools, mining (including manganese and copper), wine, etc. are listed under the industries of Georgia. The page of CIA was last updated in November 2018. As for GeoStat's Gross output raw data – the biggest sector in 2017 (17.2% of total) was manufacturing, followed by construction (13.6%).<sup>3</sup>

Industries present in Georgia include aircraft manufacturing<sup>4 5</sup>. There is JSC Tam Tbilaviamsheni – an active enterprise in Georgia, along with "Delta" – <http://www.delta.gov.ge/> - product categories of which include aircraft as well, but mainly focused on military machines and vehicles.

Georgia imports nearly all its natural gas and oil products<sup>6</sup>. The largest energy-producing source is hydropower<sup>7</sup>. Currently, Georgia is privatising the energy sector. The electricity distribution network was privatised in 1998, and the government began the privatisation of hydroelectric stations in 2006<sup>8 9</sup>.

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<sup>1</sup> [Link to further information](#)

<sup>2</sup> [Link to GeoStat](#)

<sup>3</sup> [Link to the Source](#)

<sup>4</sup> [Link to the National Register](#)

<sup>5</sup> [Link to the Delta website](#)

<sup>6</sup> [Link to the source](#)

<sup>7</sup> [Link to the source](#)

<sup>8</sup> [USAID Article](#)

<sup>9</sup> [Link to Matsne](#)

## Country Ratings

| Agency            | Long-Term Rating | Outlook         |
|-------------------|------------------|-----------------|
| Standard & Poor's | <b>BB-</b>       | <b>Stable</b>   |
| Moody's           | <b>Ba2</b>       | <b>Stable</b>   |
| Fitch             | <b>BB-</b>       | <b>Positive</b> |

**On 2 November 2018, S&P's affirmed BB-rating for Georgia.** As per the Agency, the country's rating remains supported by its relatively strong institutional arrangements in a regional comparison. The agency highlights that Georgia's institutional framework is, and will remain among the strongest in the region. The Agency expects Georgia's GDP growth to average 4% per year over 2018-2021. The current initiatives pointed out by the agency are:

- Development of the country's infrastructure and prioritizing of capital spending rather than current budget expenditures;
- Improvements in business environment including through introducing a new private-public partnership framework, deposit insurance, land reform, and pension reform;
- Tax reforms aimed at easing compliance and addressing the issue of VAT refunds; and
- Education reform.<sup>10</sup>

Moody's upgraded the rating of Georgia 11 September 2017 from Ba3 to Ba2.<sup>11</sup>

24 August 2018, Fitch affirmed rating of Georgia at BB-, with positive outlook. Fitch's positive outlook is supported by favourable growth prospects and steady improvements in public finance.<sup>12</sup>

A summary of key economic indicators for Georgia is provided in Table 1.

## Natural resources

Georgia has vast natural resources. Among these are forests and hydropower as well as copper, gold, and manganese. There are minor deposits of coal and oil.

The coastal climate and soils enable the growth of tea, citrus, and grapes<sup>13 14</sup>. In March 2018, the natural resource and environmental protection committee published strategy 2018-2030 and action plan 2018-2020, developed with the support of UNDP and EU programs.

<sup>10</sup> [S&P's rating](#)

<sup>11</sup> [Moody's rating](#)

<sup>12</sup> [Fitch rating](#)

<sup>13</sup> [Link to the PSU overview](#)

<sup>14</sup> [UNDP article](#)

## Transit pipelines

It is believed that long-term growth will stem from Georgia's role as a transit state for pipelines.

According to GOGC ten year development plan for Georgian Gas Transmission Network 2018-2027, Operator of North-South Gas pipeline (NSGP) - Georgian Gas Transportation Company (GGTC) was annually receiving gas for transit of gas to Armenia based on the contract signed with the Russian "GazProm". From 2017 a new agreement was enacted. A new contract must be signed until 2019 which will consider real transit conditions and regional market prices.

Three pipelines currently exist<sup>15 16</sup>:

- The *Baku-Supsa pipeline* runs 833 km from Baku to Supsa (458 km in Azerbaijan and 375 km in Georgia) and transports "early oil" from the Caspian Sea region operated by the AIOC (Azerbaijan International Oil Company) consortium off the coast of Azerbaijan<sup>17</sup>. Azerbaijan International Oil Consortium financed full rehabilitation works of the pipeline as well as the construction of new buildings. BP is the largest shareholder of the consortium and operates the Georgian section of WREP. Initial line capacity is 100,000 barrels per day but could be increased to approximately 200,000 barrels per day with additional pumping stations<sup>18 19</sup>. There are four 160,000 ton storage units at Supsa.
- The *Baku-Tbilisi-Ceyhan (BTC) oil pipeline* : According to BP the length is 1768km with 249 km in Georgia. As for the throughput capacity, the one mln barrels per day from 2006-2009; Since march 2009 – expanded to 1.2 mln barrels per day. The pipeline mainly carries ACG crude oil and Shah Deniz condensate from Azerbaijan.<sup>20</sup>
- The *South Caucasus Pipeline (SCP) System* According to BP, the expansion of the South Caucasus Pipeline is part of the Shah Deniz Full Field Development project. This will triple gas volumes exported through the pipeline to over 20 bln cubic meters. At the border between Georgia and Turkey, the pipeline will link into other new pipelines to provide gas into Turkey and the European Union. During the first half of 2018, SCPX activities continued successfully along the pipeline route across Azerbaijan and Georgia. All infrastructure across Azerbaijan and Georgia required to support first commercial gas deliveries to Turkey were completed on schedule and were ready to operate before commencement of export on 30 June.<sup>21 22</sup>

<sup>15</sup> [Information of GOGC on NSGP](#)

<sup>16</sup> [Colliers rela estate market report](#)

<sup>17</sup> [GOGC on Western Route \(Baku Supsa\) pipeline](#)

<sup>18</sup> [Socar website](#)

<sup>19</sup> [BP website](#)

<sup>20</sup> [BP info](#)

<sup>21</sup> [Colliers report](#)

<sup>22</sup> [BP website](#)

## Transport

Rail and ferry connections link the Georgian Black Sea ports with Turkmenbashi Port (Turkmenistan) and Aktau Port (Kazakhstan)<sup>23</sup>. Poti Port operates as a free trade zone. This makes Georgia a natural transit point for shipments bound for Central Asia.

Georgia is the part of Trans Caspian International Transport Route. It starts from Southeast Asia and China, runs through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia and further to European countries. (November 7, 2013 As part of the II International Transport and Logistics Business Forum "New Silk Road" in Astana, the leaders of JSC "National Company" Kazakhstan Temir Zholy", CJSC "Azerbaijan Railways", JSC "Georgian Railway" signed Agreement on the establishment of Coordination Committee for the development of the Trans-Caspian International Transport Route).

Georgia has a railway network of 2,084 kilometres of track<sup>24 25 26</sup>. Direct rail connections exist between Georgia and Armenia and between Azerbaijan and Russia (though the latter is not currently utilised).

As per Roads department of Georgia, the total length of the highways of international significance in Georgia is 1,603 km. whereas the length of internal state roads is 5,298.1 km. The figures do not include the roads of local importance. As for the roads of local importance the list of roads, with respective kilometres is published separately by each municipality<sup>27</sup>.

Harmonisation of the certification and technical standards of Georgia with those of the EU, drastic anti-corruption measures, improvements in the customs administration, and the introduction of the "green corridor" regime with Turkey has resulted in an increase in the flow of road transport through Georgia.

Georgia possesses operational airports and airfields in Tbilisi, Kutaisi (Kopitnari), Batumi, Mestia and Ambrolauri, the latter being constructed in 2017 as a domestic airport. Out of the five listed airports, three are international and two domestic. As per GNTA report, all of the airports fully comply with the International Civil Aviation Organization standards. Tbilisi, Kutaisi and Batumi are the main facilities, providing over 99% of all services.<sup>28 29</sup> Georgia also possesses numerous secondary and minor airfields. As per GNTA report 2017, Tbilisi international airport has the capacity of 3,000 passengers/hour; while Batumi and Kutaisi International airports have the capacity of 600 and 800 passengers/hour respectively. The biggest air company on the Georgian market is Turkish Airlines having served 11.4% of passengers in 2017, followed by Georgian Airways

with 9.5% of passengers. The third major air company on the market is Wizz Air Hungary (7.7%) which launched flights from Kutaisi International Airport and is one of the low-cost carriers on the Georgian market.<sup>30</sup>

Georgia has two operating ports on the Black Sea, both of which are open year round. Anaklia Deep Sea Port is set open in 2020:

*Poti Port* - "The Poti Sea Port is the largest port in Georgia, handling liquids, dry bulk, passenger ferries and 80% of Georgia's container traffic. The multi-purpose facility has 15 berths, a total quay length of 2,900 meters, more than 20 quay cranes and 17 km of rail track." As for the total area of Poti sea port, the ADB Proposed Loan report issued in 2010, confirms the information of 49 ha.

- As for the certification, the information is confirmed in various sources, one of which is provided in footnote. As for the connections of the port, the Transford LLC report on environmental and social impact assessment of Poti port highlights railway ferry complex connects port to the ports of Ukraine, Turkey, Romania, Russia and Bulgaria.<sup>31 32 33 34</sup>

*Batumi Port* occupies 22 hectares. It has primarily handled bulk cargo, The maximum throughput of the dry cargo is 2 million tones annually. Throughput efficiency of the oil terminal is 15 million tones annually with total throughput of the port of 18 million tones per year. As for the cargo processing, dry cargo turnover has been increasing 2010-2013 and decreasing since 2014.<sup>35 36 37</sup>

- *Anaklia Deep Sea Port* is located on the New Silk Road between China and Europe. Under the investment Agreement signed between the Government of Georgia and Anaklia Development Consortium, the GoG has provided 330 hectares of land and 225 ha of marine area to be developed, constructed, built and operated. The investment agreement is a 52-year concession according to the Build-Operate-Transfer principle. The port will be designed over the course of 9 phases with a total investment of USD2.5 billion.<sup>38</sup>

## Communications

One of the main priorities of the government has been improving the telecommunication system and integrating it with the larger international telecommunication community.

<sup>23</sup> [The article on TRIT](#)

<sup>24</sup> [GR statistics](#)

<sup>25</sup> [GR Report 2017](#)

<sup>26</sup> [FITA](#)

<sup>27</sup> [Matsne roads](#)

<sup>28</sup> [GCCA data](#)

<sup>29</sup> [GNTA data](#)

<sup>30</sup> [GNTA report](#)

<sup>31</sup> [APM terminals](#)

<sup>32</sup> [ADB issue](#)

<sup>33</sup> [article](#)

<sup>34</sup> [OPIC report 2015](#)

<sup>35</sup> [Batumi Port data](#)

<sup>36</sup> [The blog from 2012](#)

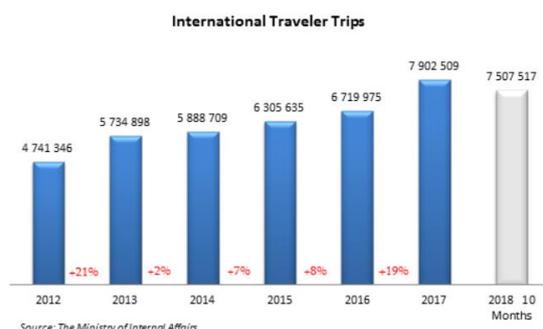
<sup>37</sup> [media article](#)

<sup>38</sup> <http://anakliadevelopment.com/info/>

The state telephone company was privatised, and currently Georgia has three mobile telephone operators.

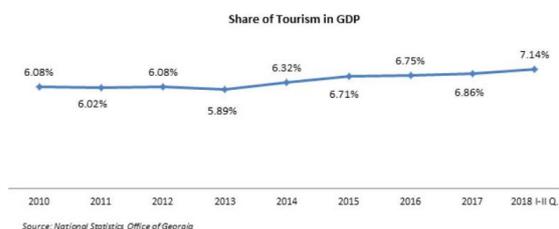
### Tourism<sup>39</sup>

Georgia’s tourism sector is growing constantly. In 2017 the increase of visitors to Georgia represented 17.64% compared to 2016. In 2015, number of international travellers exceeded 6 million and has been increasing ever since, reaching 7.9 million in 2017. Number of international traveller trips exceeded approximately 7.5 million in first 10 months of 2018.



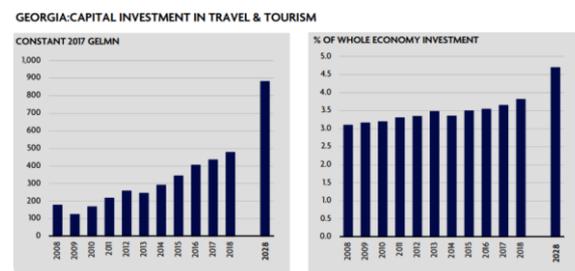
The government is encouraging investment in infrastructure, including incentives granted for hotel development in new tourism areas in Kobuleti and Anaklia.

The Tourism’s direct contribution to GDP has been increasing over the past years, reaching 6.86% in 2017. As for the first half of 2018, the tourism/s share in GDP is approximated at 7.14%. Positive prospect towards tourism’s contribution to GDP can also be seen in S&P’s rating report published in November 2018 “In 2018, we expect real GDP to expand by 4.8%, partly due to the tourism sector’s steady performance.”<sup>41</sup>



As per World Travel and Tourism Council’s Economic Impact 2018 research, total contribution of tourism industry to employment, including jobs indirectly supported by the sector was 27%. Additionally, “Travel & Tourism is expected to have attracted capital investment of GEL435.1mn in 2017. This is

expected to rise by 9.7% in 2018, and rise by 6.3% pa over the next ten years to GEL881.3mn in 2028.”<sup>42</sup>



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As per GNTA 2017 report on Georgian Tourism in figures, foreign currency revenues from incoming tourism grew by 27% in 2017, reaching USD2,75 billions. Additionally, 68% of the Georgia’s service export revenue comes from tourism.<sup>44</sup> As for accommodation market, 1,955 accommodation units are registered in GNTA database with total of 65,943 beds. The occupancy rate for the hotels in Georgia was 62%, showing 9% growth compared to the prior year. In 2018, the luxury brand hotel – Paragraph resort and Spa Shekvetili Autograph collection was opened in the coastal resort of Shekvetili. The newly built Black Sea Arena, with 10,000 seats is located in Shekvetili as well. The Black Sea Arena hosted concerts of various internationally well-known performers – e.g. Elton John in 2018. There are several international hotel brands in Tbilisi such as Marriott, Sheraton, Holiday Inn, Biltmore among others. The brands operating in the regions of Georgia Wyndham, best Western, etc. Additionally, the brands such as Hyatt regency, Rixos, Moxy, Golden Tulip are planned in Tbilisi with brands such as Ramada Encore and Swissotel planned for the regions of Georgia.<sup>45</sup>

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### 1.6 Foreign trade

Georgia’s main export partners are Russia, Azerbaijan, Turkey, Armenia, China. Additionally, in 2017 first time in the years, exports to Europe exceeded exports to Asia. At the same time, in 2017 imports from Asia were more than imports from Europe. Exports include wine, mineral water, ores, motor vehicles, medicaments, nuts, ferro-alloys among others.<sup>47</sup>

In the January-September 2018, the exports to 10 out of top 10 trading partners by export exceeded the exports during the same period of the prior year.<sup>48</sup>

<sup>42</sup> [WTTC report 2018](#)

<sup>43</sup> [EG information](#)

<sup>44</sup> [GNTA report](#)

<sup>45</sup> [GNTA report](#)

<sup>46</sup> [Colliers hotel market report](#)

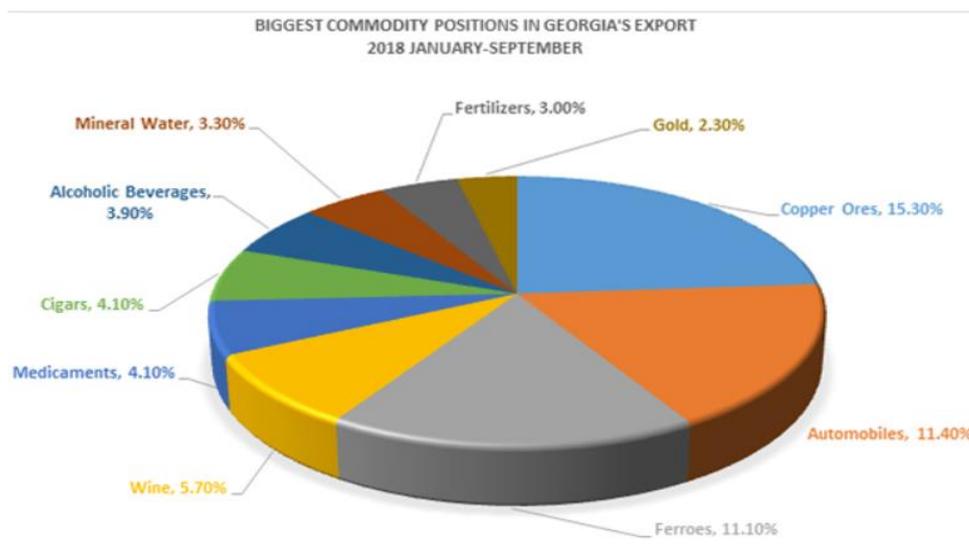
<sup>47</sup> [GeoStat foreign trade 2017](#)

<sup>48</sup> [Economy ge foreign trade](#)

<sup>39</sup> [GNTA statistics](#)

<sup>40</sup> [GNTA Statistics](#)

<sup>41</sup> [economy tourism](#)



As per GeoStat Report 2017, the main import partners of Georgia in 2016-2017 were Turkey, Russia, China, Azerbaijan and Ukraine, in respective order. As for 2016-2017, imports include petroleum, motor cars, medicaments, copper ores, cigarettes, wheat, etc.

The Government has adopted a policy of free international trade, and has been a full member in the World Trade Organisation since 2000. In June 2014, Georgia signed Association Agreement with the European Union, which fully entered into force in 2016. The Agreement aims to achieve Georgia's gradual integration into the EU Internal market, particularly through establishment of a Deep and Comprehensive Free Trade Area. The DCFTA will provide market access on the basis of sustained and comprehensive regulatory approximation to the EU.<sup>49</sup>

In May 2017, Free Trade Agreement was signed between the Ministry of Economy and Sustainable development of Georgia and Ministry of Commerce of the People's Republic of China. The Agreement will free the exported Georgian goods from the customs taxes by almost 94%.<sup>50</sup>

<sup>49</sup> [Association Agreement](#)

<sup>50</sup> [source](#)

**Table 1: Key economic indicators**

|  | 2014    | 2015    | 2016    | 2017                  |
|--|---------|---------|---------|-----------------------|
| <b>GDP (USD billion)<sup>51</sup></b>                | 16.51   | 13.99   | 14.38   | 15.09                 |
| <b>GDP growth</b>                                    | 4.60%   | 2.90%   | 2.8%    | 4.8%                  |
| <b>GDP per capita (USD)</b>                          | 4.44    | 3.76    | 3.86    | 4.05                  |
| <b>Inflation (year-end)</b>                          | 2.7%    | 6.9%    | 1.80%   | 4.7% <sup>52</sup>    |
| <b>Officially registered unemployment (year-end)</b> | 14.6%   | 14.1%   | 14.0%   | 13.9% <sup>53</sup>   |
| <b>USD/GEL exchange rate (average)</b>               | 1.766   | 2.269   | 2.367   | 2.510 <sup>54</sup>   |
| <b>Foreign direct investments (USD million)</b>      | 1,817.7 | 1,665.6 | 1,565.8 | 1,894.5 <sup>55</sup> |
| <b>External debt (USD million)</b>                   | 13,989  | 15,259  | 15,881  | 17,271 <sup>56</sup>  |
| <b>Exports FOB (USD million)</b>                     | 2,861   | 2,205   | 2,113   | 2,736 <sup>57</sup>   |
| <b>Imports CIF (USD million)</b>                     | 8,602   | 7,300   | 7,294   | 7,939                 |
| <b>Foreign Exchange Reserves (USD million)</b>       | 2,491   | 2,321   | 2,563   | 2,833 <sup>58</sup>   |

Source: GeoStat, National Bank of Georgia

<sup>51</sup> [GDP](#)

<sup>52</sup> [See market inflation report](#)

<sup>53</sup> [http://geostat.ge/index.php?action=page&p\\_id=146&lang=eng](http://geostat.ge/index.php?action=page&p_id=146&lang=eng)

<sup>54</sup> [NBS Statistics](#)

<sup>55</sup> [GeoStat FDI](#)

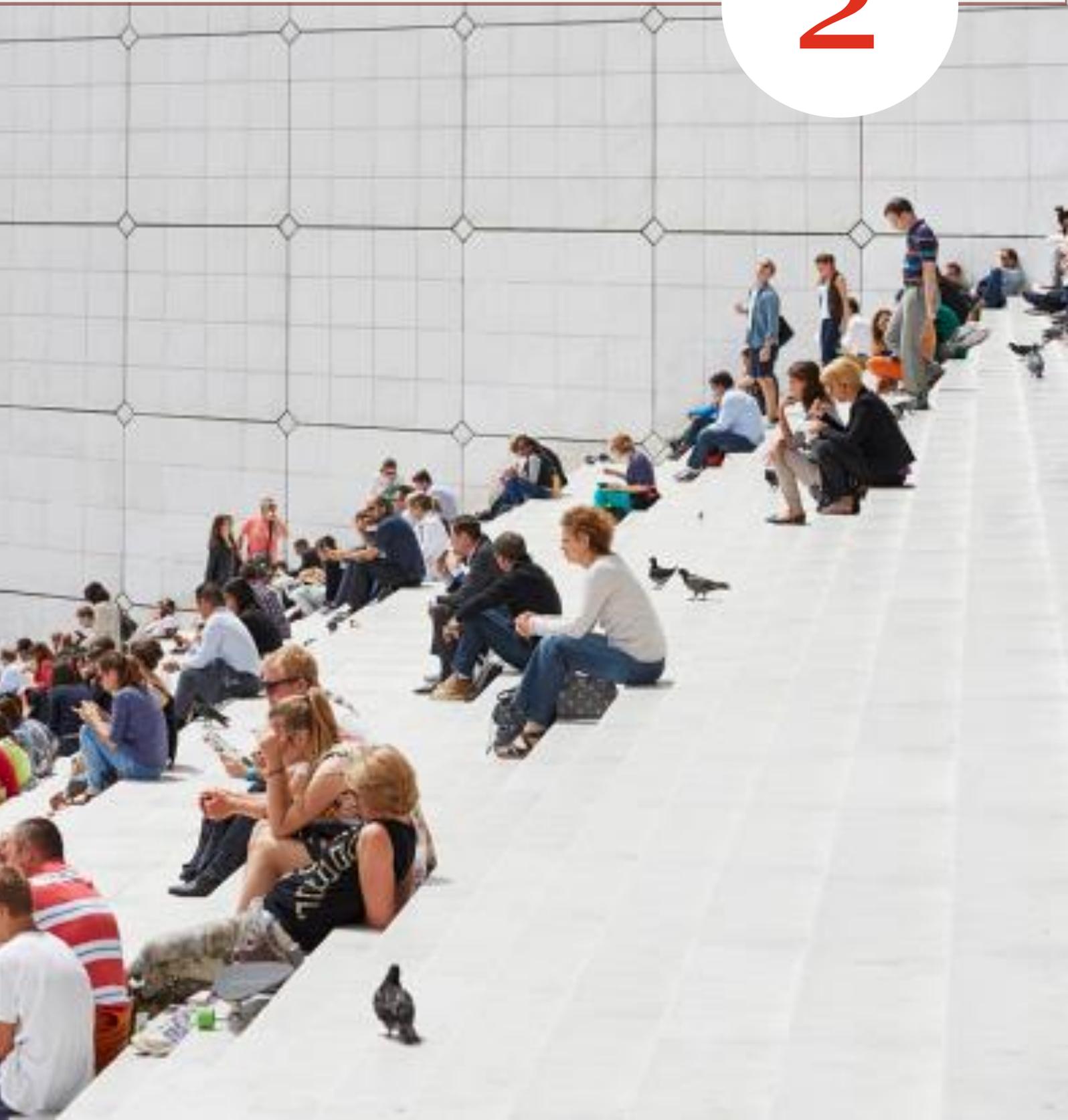
<sup>56</sup> [See Gross external debt BPM 5](#)

<sup>57</sup> [GeoStat exports and imports](#)

<sup>58</sup> [See International reserves and foreign currency reserves liquidity template](#)

# Business and Investment Environment

2



## 2 Business and Investment Environment

### 2.1 Business climate

Georgia has made sweeping economic reforms, moving from a near-failed state in 2003 to a relatively well-functioning market economy in 2016.

Through dramatic police and institutional reforms, the government has mostly eradicated low-level corruption. According to a 2016 International Republican Institute (IRI) poll, 95 percent of respondents said they have not been asked to pay a bribe in the past year to receive a service or decision.

Georgia's ranking in the Ease of Doing Business 2019 among the 190 countries covered by the World Bank Group annual report slipped to the 6th position from the 9th position last year. The latest Doing Business 2019 of the World Bank showed that Georgia's score improved by 1.24 points and reached 83.28 points. Previously, Georgia's score was 82.04 points.

Moreover, with its score, Georgia exceeds the average regional score - 72.3.

Georgia outranked such successful countries as Sweden, Macedonia, Estonia, Finland, Australia, Taiwan (China) and Latvia.

DB measures regulations affecting 11 areas of the life of a business. Ten of these areas are included in this year's ranking on the ease of doing business. Georgia's rank in each field are as follows:

1. Starting a business - 2
2. Dealing with construction permits - 27
3. Getting electricity - 39
4. Registering property - 4
5. Getting credit - 12
6. Protecting minority investors - 2
7. Paying taxes - 16
8. Trading across borders - 43
9. Enforcing contracts - 8
10. Resolving insolvency - 60

Fiscal and monetary policy are focused on low deficits, low inflation, and a floating real exchange rate, although the latter has been affected by regional developments, including sanctions on Russia and other external factors such as a stronger dollar and weaker regional economies. Public debt and budget deficits remain under control.

In early 2014, the government published its medium-term economic strategy, Georgia 2020, which outlines

Georgia's economic policy priorities. It stresses the government's commitment to business-friendly policies such as low taxes, but also pledges to invest in human capital and to strive for inclusive growth across the country, not just in Tbilisi. The strategy also emphasizes Georgia's geographic potential as a trade and logistics hub along the New Silk Road linking Asia and Europe via the Caucasus.

Companies have reported occasional problems arising from a lack of judicial independence, inefficient decision making processes at the municipal level, occasional shortcomings in the enforcement of intellectual property rights, lack of effective anti-trust policies, selective enforcement of economic laws, and difficulties resolving disputes over property rights. Georgia's government continues to work to address these issues and, despite these remaining challenges, Georgia stands far ahead of its post-Soviet peers as a good place to do business.

### Policies Towards Foreign Direct Investment

Georgia is open to foreign investment, and the Georgia National Investment Agency ([www.investingeorgia.org](http://www.investingeorgia.org)) is implementing an aggressive marketing campaign to encourage more foreign investors to come to Georgia. Legislation establishes favourable conditions for foreign investment, but not preferential treatment for foreign investors. The Law on Promotion and Guarantee of Investment Activity protects foreign investors from subsequent legislation that alters the condition of their investments for a period of ten years.

### Limits on Foreign Control and Right to Private Ownership and Establishment

Georgia does not formally screen foreign investment in the country, other than imposing a registration requirement and certain licensing requirements as outlined below. Foreign investors have participated in most major privatizations of state-owned property. Transparency of privatization has at times been an issue. No law or regulation authorizes private firms to adopt articles of incorporation or association that limit or prohibit foreign investment, participation, or control. Cross-shareholder or stable-shareholder arrangements are not used by private firms in Georgia.

There are no specific licensing requirements for foreign investment other than those that apply to all companies. By law, the Government has 30 days to

make a decision on licenses, and if the licensing authority does not state a reasonable ground for rejection within that time, the license or permit is deemed to be issued. The government only requires licenses for activities that affect public health, national security, and the financial sector.

The government currently requires licenses in the following areas: weapons and explosives production, narcotics, poisonous and pharmaceutical substances, exploration and exploitation of renewable or non-renewable substances, exploitation of natural resource deposits, establishment of casinos and gambling houses and the organization of games and lotteries, banking, insurance, securities trading, wireless communication services, and the establishment of radio and television channels.

The law requires the state to retain a controlling interest in air traffic control, shipping traffic control, railroad control systems, defence and weapons industries, and nuclear energy. Only the state may issue currency, banknotes, and certificates for goods made from precious metals, import narcotics for medical purposes, and produce control systems for the energy sector.

### **Business Facilitation**

The Georgian National Investment Agency is a governmental institution accountable to the Prime Minister of Georgia. It plays the role of moderator between foreign investors and the Government of Georgia, ensuring that the investor receives different types of updated information and has means of effective communication with Government bodies. The Agency's web page offers useful information (<http://www.investingeorgia.org/en/>), and any investor is eligible to use the Agency's services free of charge.

In general, the process of registering a business in Georgia is quick and streamlined, and Georgia tops the list of countries in the World Bank's Doing Business Report with regard to this particular component. The registration process takes only one day to complete. Registration of companies is carried out by the [National Agency of Public Registry \(NAPR\)](http://www.napr.gov.ge) ([www.napr.gov.ge](http://www.napr.gov.ge) is in Georgian only), located in the Public Service Halls (PSH) under the Ministry of Justice of Georgia. The web page of the PSH (<http://www.psh.gov.ge/main/page/2/85>) outlines procedures and requirements for business registration in English. For registration purposes, the law does not require a document verifying the amount or existence of charter capital. A company is not required to complete a separate tax registration. The initial registration includes both the state and tax registration together.

**The following information is required to register a business in Georgia:** personal information of the founder and principal officers, articles of incorporation, and the company's area of business activity. Other required documents depend on the type of entity to be established. Registration fees are minimal.

To register a business, you must first pay the registration fee, register the company with the Entrepreneurial Register and obtain an identification number and certificate of state and tax registration. **Registration fees are:** GEL 100 (around USD 45) for regular registration, GEL 200 (USD 90) for expedited registration, plus GEL 1 (bank charges). Second, you must open a bank account (free of charge).

### **Outward Investment**

The Georgian government does not have any specific policy on promoting or restricting domestic investors from investing abroad and Georgia's outward investment is insignificant.

### **Bilateral Investment Agreements and Taxation Treaties**

Georgia has bilateral agreements on investment promotion and mutual protection with 32 countries, including: the United States, Armenia, Austria, Azerbaijan, Belgium, Bulgaria, China, the Czech Republic, Estonia, Egypt, Finland, France, Germany, Greece, Iran, Israel, Italy, Kazakhstan, Kyrgyzstan, Kuwait, Latvia, Lithuania, Luxemburg, Moldova, the Netherlands, Romania, Sweden, Turkey, Turkmenistan, Uzbekistan, the United Kingdom, and Ukraine. Negotiations are under way with the governments of 24 countries: Bangladesh, Belarus, Bosnia and Herzegovina, Croatia, Cyprus, Denmark, Iceland, India, Indonesia, Jordan, Korea, Lebanon, Malta, Norway, the Philippines, Portugal, Saudi Arabia, Slovakia, Slovenia, Spain, Switzerland, Syria, Tajikistan, and Qatar. Additionally, in 2007, Georgia signed a Trade and Investment Framework Agreement (TIFA) with the United States.

On June 27, 2014, Georgia signed an Association Agreement (AA) and Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union. In 2016, the government signed a free trade agreement with the European Free Trade Association (EFTA) countries of Iceland, Liechtenstein, Norway, and Switzerland. On 13 May 2017, Georgia signed a free trade agreement (FTA) with China. The FTA took effect on 1 January 2018. On 28 June 2018, Georgia and Hong Kong signed the FTA, which entered into force on 13 February 2019. A free trade agreement is in force with the Commonwealth of Independent States and others exist bilaterally with Ukraine, Russia (though trade is restricted by the Russian Government), Kazakhstan, Azerbaijan, Armenia, Moldova, Turkmenistan, and Turkey. An agreement is signed, but not yet ratified, with Uzbekistan. Georgia has ongoing free trade agreement consultations with Belarus, Kyrgyzstan, the Cooperation Council of Gulf Arab States, and Tajikistan.

## Bilateral Taxation Treaties

The United States and Georgia are beneficiaries of the U.S.-Georgia Bilateral Taxation Treaty. Georgia has concluded agreements for avoidance of double taxation with 46 countries: Armenia, Austria, Azerbaijan, Bahrain, Belgium, Bulgaria, China, the Czech Republic, Croatia, Denmark, Estonia, Egypt, Finland, France, Germany, Greece, Hungary, India, Iran, Ireland, Italy, Israel, Kazakhstan, Kuwait, Latvia, Lithuania, Luxemburg, Malta, the Netherlands, Norway, Poland, Qatar, Romania, San Marino, Serbia, Singapore, Slovakia, Slovenia, Spain, Switzerland, Turkey, Turkmenistan, UAE, Ukraine, the UK, and Uzbekistan. A double taxation avoidance treaty has been ratified, but has not yet entered into force with Portugal.

Treaties have been negotiated but are waiting to be ratified with Cyprus, Lebanon, Sweden, Oman, Liechtenstein, and Iceland. Treaty negotiations have started with Belarus, South Korea, Jordan, Montenegro, Saudi Arabia, Vietnam, Iraq, Argentina, Indonesia, Malaysia, Mexico, Albania, Colombia, Moldova, Mongolia, Morocco, New Zealand, Peru, the Philippines, Tajikistan, Uruguay, Brazil, Cuba, Ecuador, Canada, and South Africa. Georgia and Russia signed a double taxation avoidance treaty in 1999, which the Georgian Parliament ratified in 2000; although it has not been ratified by the Russian Duma, Russia regards it as an active agreement.

**Georgia has six types of tax:** corporate profit, value added tax (VAT), property, income, excise, and dividend.

The tax on corporate profits is 15 percent. However, in January 2017, the government adopted a corporate profit tax scheme that exempts from income taxation undistributed, reinvested, or retained corporate profits.

The VAT is 18 percent. The tax on personal income is 20 percent.

The dividend income tax rate is 5 percent.

There are no dividend and capital gains taxes for publicly traded equities (a free float in excess of 25 percent).

There are excise taxes on cigarettes, alcohol, fuel, and mobile telecommunication. Most goods, except for some agricultural products, have no import tariffs.

For goods with tariffs, the rates are five or 12 percent unless excluded by an FTA.

## 2.2 Industrial Policies

### Investment Incentives

In 2013, the Georgian Co-Investment Fund (GCF) was launched to promote foreign and domestic investments. GCF was announced as a reported USD six billion private investment fund, with the mandate of providing investors with unique access, through a private equity structure, to opportunities in Georgia's fastest growing industries and sectors.

Approximately 80 percent of the fund will be invested in Georgia over a period of five years (2013-2018).

The remaining 20 percent will be invested internationally. Priority areas with estimated expenditures announced at the launch of the fund are:

- Energy – up to USD 3 billion
- Hospitality and Real Estate – up to USD 1 billion
- Agriculture and Logistics – up to USD 0.5 billion
- Manufacturing – up to USD 1.5 billion
- Other – up to USD 0.5 billion

The government's Produce in Georgia program aims to develop and support entrepreneurship, encourage creation of new enterprises, and increase export potential and investment in the country. Coordinated by the Ministry of Economy and Sustainable Development of Georgia through its Entrepreneurship Development Agency, National Agency of State Property, and Technology and Innovation Agency of Georgia, the project provides the following support:

- Access to finance
- Access to real property
- Technical assistance

For more information please visit the website: <http://qartuli.ge>

Within the framework of this program the National Agency of State Property is in charge of the Physical Infrastructure Transfer Component, i.e., free-of-charge transfer of government-owned real property to an entrepreneur under certain investment obligations.

Low labour costs contribute to the attractiveness of Georgia as a foreign investment destination. It is also increasingly recognized as a regional transportation hub that provides access to the New Silk Road trade corridor linking Asia and Europe.

Georgia's free trade regimes with a number of regional countries, as well as the recently signed Association Agreement with the EU and related Deep and Comprehensive Free Trade Agreement, provide easy access for goods produced in Georgia to foreign markets. Foreign investors can benefit from these agreements if their investments are targeted at the production of goods to be exported to these markets.

# Banking and Finance Systems

3



## 3 Banking and Financial Systems

### 3.1 Banking system

The central bank is the National Bank of Georgia (NBG). It sets monetary policy, issues licenses, and supervises the activities of banking institutions and currency exchange offices. To regulate circulating money and encourage deposits in Georgian lari (GEL), the national legal tender, the NBG requires commercial banks to keep a certain percentage of their foreign currency deposit liabilities in reserve.

According to the National Bank of Georgia, as of January 2017 the total assets of the country's 19 commercial banks (18 of which have foreign capital) were around \$12.4 billion. Credit from commercial banks is available to foreign investors as well as domestic clients, although interest rates are high.

Banks continue offering business, consumer, and mortgage loans. The International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), U.S. Overseas Private Investment Corporation (OPIC), Millennium Challenge Corporation (MCC), Asian Development Bank (ADB), and other international development agencies have a variety of lending programs that make credit available to large and small businesses in Georgia. In the beginning of 2017 there were 69 microfinance organizations operating in Georgia, with total assets of around \$842 million, making small credit available to businesses.

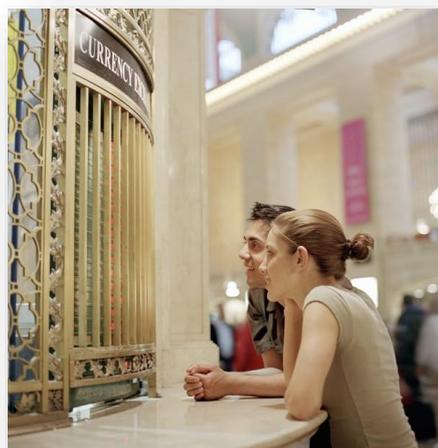
Banks are required to be organized as Joint Stock Companies and to report using International Financial Reporting Standards (IFRS).

Commercial banks require a license from the NBG. The NBG applies the principle of "prudent regulation." The minimum statutory capital required to register a bank is GEL 12 million.

In June 2014, Georgia's TBC Bank debuted on the London Stock Exchange -- the first Georgian company to go public since the Bank of Georgia did so in 2006.

#### National Bank of Georgia

The National Bank supervises the financial sector in order to facilitate the financial stability and transparency of the financial system, as well as to protect the rights of the sector's consumers and investors. Through the Financial Monitoring Service of Georgia, a separate legal entity, the NBG



undertakes measures against illicit income legalization and the financing of terrorism.

In addition, the NBG is the banker and fiscal agent of the government. ([www.nbg.gov.ge](http://www.nbg.gov.ge))

Georgia's two largest banks – TBC and Bank of Georgia have correspondent banking relationships with the United States through Citibank, N.A.

### 3.2 Foreign currency rules

Georgian official currency (GEL) is the sole legal tender for payments on the territory of Georgia, except for the operations related to export-import and free industrial zone.

### 3.3 Capital markets

The Georgian Stock Exchange (GSE) is the only organized securities market in Georgia. Designed and established with the help of USAID and operating under a legal framework drafted with the assistance of American experts, the GSE complies with global best practices in securities trading and offers an efficient investment facility to both local and foreign investors. The GSE's automated trading system can accommodate thousands of securities that can be traded by brokers from workstations on the GSE floor or remotely from their offices. The official website is [www.gse.ge](http://www.gse.ge)

# Customs Duties Importing and exporting

4



## 4 Importing and Exporting

### 4.1 Trends in customs policy

The Customs Code was repealed at the end of 2010 and customs provisions are now incorporated into the tax code. The consolidation of tax and customs rules into a single code did not involve any significant change in customs policies.

### 4.2 Import restrictions

There are no restrictions on imports into Georgia (except for the limitations set for the goods requiring special permissions and licensing). Georgia has no quantitative restrictions (quotas) on trade.

### 4.3 Customs duties

#### Classification of goods

Georgia uses the Harmonised Commodity Description and Coding System for tariff classification, in compliance with the 1984 International Convention on Harmonised Commodity Description and Coding System.

#### Valuation rules

Georgian customs valuation rules comply with the Agreement on Implementation of Article VII of the GATT 1994. This means that:

- The declared customs value should generally be used as the basis for determining customs duties.
- The customs value should be determined in accordance with the six WTO valuation methods.
- The customs authority is entitled to assess duties on a higher value in certain circumstances.

#### Tariff rates

The following goods are exempt from customs duties:

- Export of goods.
- Transit of goods.
- Goods intended for official use of diplomatic representatives in Georgia.
- Import of goods intended for oil and gas operations under the Law on Oil and Gas.
- Goods produced in a “Free Industrial Zone” are free of customs duties when imported to an area outside the zone.

Goods originating in WTO member states are taxed at lower rates. Oil products, including oil products from

Rates of duty on imported goods fall into three bands; 0 percent, 5 percent, and 12 percent. Nearly 90 percent of goods benefit from a zero rate of duty.

Import of agricultural goods, food products, clothes, construction materials, wood and wood products, plastics, wire and cable, iron, steel, soap, organic surface-active agents, and washing preparations which are produced in Georgia in whole or in part, are major areas of goods taxed at higher rates. A combined rate of customs tariffs are applied to alcoholic beverages. A fee of €5 is charged per customs declaration for goods valued below 3000 GEL (\$1,310) and €60 (\$67) for goods valued above GEL 3000. As of January 1, 2015, the customs tariff on passenger cars will remain 0.05 GEL (\$0.022) per cubic centimeter of the engine capacity plus 5 percent of the amount of the customs tariff per each year of the use of a vehicle.

An 18 percent value added tax (VAT) applies to most imported goods. Fixed excise tax rates apply to certain goods such as alcoholic drinks, ethyl alcohol, ethyl petrol for cars, and cigarettes. The customs value of goods for customs clearance is defined based on the customs declaration. Export, transit, and re-export of goods are exempt from customs duties and fees. Chapter 39(1) of the Georgian Tax Code defines the amount of the customs tariffs and exemptions.

Once every 30 day period, individuals are allowed to import the following goods free of customs duties, VAT, and excise duties within the following limits: *Import of vegetables, fruit (including dried), tea, coffee, macaroni, bakery, sugar, confections (with the exception of chocolate), sausages, milk and dairy products that have a maximum total weight of 30 kg, and a total value of less than 500 GEL (\$222).*

Import of 200 cigarettes, or 50 cigarillos, or 50 cigars, or 250 grams of tobacco product or any combination of these for personal use is permitted, but must not exceed 250 grams in total weight.

#### Excise tax

*Taxable amount for excise goods is determined for:*

Alcoholic drinks – by alcoholic drinks volume.

Tobacco products – by tobacco products quantity or weight.

Oil products – by oil product weight (volume).

Motor cars – by year of production of the vehicle and engine volume.

#### **Value added tax**

*VAT rate is:*

18 percent of import amount which is determined on the day of registration of import cargo declaration;

*Import amount is a total of:*

Customs value;

Import Duties and taxes, excluding VAT to be paid in Georgia;

Service costs, excluding VAT, that in accordance of Tax Code are part of goods import.

0.54 percent of temporary admission amount during temporary admission customs procedures, on each complete and incomplete month when on customs territory of Georgia, but not exceeding 18 % of temporary admission amount;

Temporary admission amount is total to import amount prescribed by the Tax Code in case the goods are deemed imported on the day of registration of temporary admission cargo declaration.

#### **4.4 Customs processing fee, documents and procedures**

All goods crossing the border are subject to customs control, which includes specific procedures aimed at ensuring compliance with customs rules. Other types of border control may also be conducted.

The customs authorities may conduct post-entry audits to verify compliance with customs and tax legislation.

An entity is subject to a fee of GEL 400 per customs declaration if the value of goods exceeds GEL 15,000, GEL 300 per declaration if the value of goods is between GEL 3,000 and 15,000, and GEL 100 if the value of goods is less than GEL 3,000. Customs fees for temporarily imported goods vary with respect to the weight of goods.

#### **Payment**

Import duties, customs fees and taxes are payable by the importer in local currency after the customs clearance of the imported goods, within the period from 5 to 30 days, depending on the conditions of the import.

#### **4.5 Exports**

##### **Export duties**

Georgia has no export duties. Exported goods are zero rated for VAT purposes.

# Legal Framework

5



## 5 Legal Framework

### 5.1 Incorporation

The Georgian government has committed to greater transparency and simplicity of regulation.

The government publishes laws and regulations in Georgian in the official gazette, the Legislative Messenger, 'Matsne' ([www.matsne.gov.ge](http://www.matsne.gov.ge)).

The Law of Georgia on Entrepreneurs provides for the following legal forms of enterprises:

- Joint Stock Company (JSC) - a company whose capital is divided into shares of a certain class and quantity as determined by the Charter of the company. When founding a JSC, the capital can be determined in any amount. The Charter may determine a value below which the price of the stocks may not be set for the initial issuance for a given class (par value). The company's liability to its creditors is limited to all of its assets and the shareholders are not liable for the company's obligations. A JSC may issue ordinary and preferred shares. JSCs where number of shareholders exceed 50, shall maintain the share register through an independent registrar.
- Limited Liability Company (LLC) – a company, whose liability to creditors is limited to its assets. The capital of a limited liability company may be fixed in any amount and is divided into shares. A share shall be transferable. Majority of the companies in Georgia are established as LLCs.
- General Partnership (GP) – company in which several persons (partners) conduct entrepreneurial activity jointly, under one common company name, and are jointly and severally liable with all their assets to the creditors as joint debtors.
- Limited Partnership (LP) - a company in which several persons carry out entrepreneurial activity under one common company name. The liability of several partners to creditors of the partnership is limited to payment of a fixed guarantee amount (limited partners) while other partners (general partners) are jointly and severally liable.
- Cooperative (CO) - a company based on the labor activity of its members or established for

developing the business and increasing the income of the members. The main objective of a cooperative is to satisfy the members' interests and not to gain the profit. The liability of a cooperative to creditors is limited to its own property.

- Branch Office (BO) – a company may establish its sub-unit in Georgia that is not a separate legal entity. The BO of the Georgian company is not subject to registration at NAPR.
- Individual Enterprise (IE) - IE is an individual engaged in the business activities. IE shall fulfil his/her rights and obligations as an individual and therefore is subject to personal liability.

The LEPL National Agency of Public Registry (Registry) effects the registration of all types of companies. The registration can be complete on the day that the required documentation is submitted if an interested party will pay 200 GEL, otherwise the terms for registration is 1 business day and the relevant fee consists 100 GEL. There is no restriction for the foreigners to establish a legal entity in Georgia.

In order to register the company, the following documents have to be submitted to the Registry:

- Application for registration.
- Partner Resolution on incorporation of the company/branch, including appointing the Director of the company/branch.
- Charter of the company.
- If the founder is a foreign entity – a document confirming founder's registration in a foreign country and the authority of its representative individuals.
- Passport copies of the company's director(s) and the founder(s) (if the founder is an individual);
- Document confirming the consent of the owner on using its property as the company's legal address.
- Director's consent to be appointed as the director of the company.

All the documents issued outside Georgia shall be notarized and apostilled or legalized, then translated in Georgian and notarized. No legalization / Apostille is required for documents issued in the 1993 Minsk

Convention on Civil, Family and Criminal Law Issues Legal Assistance and Legal Relationships (“Minsk Convention”).

In order to register as an IE, an interested person shall submit an ID card and application for registration.

## 5.2 Employment Matters

The Labour Code of Georgia regulates labour and related relations on the territory of Georgia.

The Labour Code sets forth the following main rules:

- Salaries and wages are subject to agreement between the parties.
- Labour Contract can be concluded for definite or indefinite period. A contract shall be in writing, if labour relations last for more than three months.
- Under Labour Code, employment contracts shall be concluded for one year longer, except in those case when:
  - A specific amount of work is to be performed.
  - The seasonal work is to be performed.
  - The amount of work has temporarily increased;
  - An employee being temporarily absent from work due to suspended labour relations is replaced.
  - There are other objective circumstances justifying conclusion of a fixed-term agreement.
- Probation period should not exceed six months.
- The working hours shall not exceed 40 hours a week; the working hours in enterprises with specific operating conditions requiring more than eight hours of uninterrupted production/work process must not exceed 48 hours a week. The Government of Georgia shall compile a list of industries with specific operating conditions. Working time shall not include breaks and rest time.
- Vacation period shall not be less than 24 working days annually; an employee may also enjoy an unpaid leave of at least 15 calendar days annually.
- Employees are entitled to be paid maternity leave of 183 calendar days. Maternity leave is paid from the sources of the Social Security Fund, but the employer and employee may agree on additional payment.
- The Labour Code provides for exhaustive list of the grounds for terminations of employment contract. The employer may not terminate employment for any ground other than the ones provided in the Labour Code.

- Severance payment and notification term depends on the ground of termination of labour contract. The maximum of severance payment defined by Code equals to two months salary of an employee.
- A labour agreement may not establish norms different from those provided for by the Labour Code that may deteriorate employees’ conditions.

## 5.3 Visas

Depending on the purpose of travel to Georgia, there are different categories of visas that will apply. There are short-term and long-term visas with the right of a single entry or multiple entries. A short-term visa can be issued with the right of a single entry or multiple entries into Georgia, and a long-term visa can only be issued with the right of multiple entries. A short-term single-entry visa can be issued according to the number of days indicated by an alien in a visa application but for not more than 30 calendar days. A short-term multiple-entry visa can be issued for a maximum of five years. Besides, the total period of an alien’s entry and stay in Georgia in any 180-day period shall not exceed 90 calendar days.

Certain international travellers may be eligible to travel to Georgia without a visa if they meet the requirements for visa-free travel. The visa policy of Georgia became comparatively liberal, allowing citizens of 98 countries, (including EU states, USA, Argentina, Australia, Bahrain, Brazil, Brunei, Canada, Iceland, Israel, Japan, Malaysia, Mexico, New Zealand, Norway, Oman, Qatar, Saudi Arabia, Singapore, South Africa, Korea Republic, Switzerland, Thailand, United Arab Emirates, United States, Armenia, Azerbaijan) to enter, reside, work and study in Georgia without the need to obtain either visa or residence permit. For a complete list of countries, please see the following website <https://www.geoconsul.gov.ge/HtmlPage/Html/View?id=956&lang=Eng>.

Foreigners with ordinary visas staying in Georgia for longer period than envisaged by their visa, have to apply to the Ministry of Justice for a temporary or permanent residence permit before their visa period expires.

The Residence Permit is one of main grounds for a foreigner to enter in Georgia and stay legally. The Residence Permit is issued to a foreigner with the right of temporary or permanent residence. The grounds for residence permit can be various. One of the ground is employment relationship or business activities in Georgia – the Labour Residence Permit. To obtain Residence Permit in Georgia or prolong its validity term, a foreigner staying in Georgia applies to any territorial office of Public Service Hall or Public Service Development Agency.

Temporary Residence Permit is issued for at least 6 months for the first time and its validity term shall not exceed 1 year. Its validity term might be prolonged for

other 5 years, if the total validity term of Temporary Residence Permit should not exceed 6 years.

Additional information on residence permits and residence cards is available on the websites: [www.sda.gov.ge](http://www.sda.gov.ge); [www.psh.gov.ge](http://www.psh.gov.ge); [www.centri.gov.ge](http://www.centri.gov.ge).

#### 5.4 Licences and Permits

The law of Georgia on Licenses and Permits provides for the exhaustive areas of activities that are subject to special licenses or permits. The Law defines a comprehensive list of the types of licenses and permits, and lays down the procedures for issuing, changing, and repealing licenses and permits.

#### 5.5 Restrictions on purchase of Agricultural Land Plots

Under the Constitution of Georgia, generally the owners of any agricultural land in Georgia can be only State, self-government body, citizen of Georgia and partnership of citizens of Georgia. An organic law will provide exceptions from this general rule.

#### 5.6 Currency Restriction

When offering and/or advertising property for sale/or provision of services by an entrepreneur in the territory of Georgia, the price shall be in GEL. The National Bank of Georgia provides for the list of exceptions from the rule. One of the exception is when offering/advertising provision of service and/or goods by/to a non-resident person. According to the Administrative Offences Code of Georgia, violation of the rule entails warning offeror of the advertising customer.

#### 5.7 Free Economic Zone

Free Industrial Zone (FIZ) is a part of Georgian territory (not less than 10 HA) with defined boundaries, special legal status granted under law and established for a specific period of time. Companies registered in FIZ are given significant tax and other incentives.

FIZs are established either at the initiative of the Government of Georgia (GoG) or private entity application, including by non-resident. FIZs are managed by FIZ Organizer itself, or by an administration appointed by the Organizer. The Organizer and/or the Administrator cannot be FIZ companies and are subject to standard tax and legal regulations.

The main characteristics of the FIZ are the following:

- Accounts within a free industrial zone may be settled in any currency.
- A free industrial one enterprise and a Georgian enterprise shall be settle accounts in any currency.

Under the FIZ Regulations, all activities are permitted in the FIZ, except:

- Manufacturing or selling weapons and military equipment.
- Manufacturing or selling nuclear and radioactive substances.
- Importing, storage, manufacturing and/or selling drugs and psychotropic substances etc.

#### 5.8 Commissions, penalties, other financial sanctions

The monthly interest rate and expenses of any mortgage-backed loan shall not exceed the rate indicated in the Code.

The annual effective interest rate on the non-mortgage loan shall not exceed 50% of the loan principal.

The amount of fees, financial expenses and penalties shall not exceed 0.27% of the remaining principal amount of the loan, for each day due to violation. For the purposes of 0.27%, financial sanctions shall not include: (i) in the case of a delay in payment, a single penalty imposed on a borrower amount of which does not exceed 20 GEL; (ii) a fee and/or a penalty for advance payment. Any fees, financial expenses or penalties imposed on a borrower in total shall not exceed the remaining principal amount of the loan 1.5 times. Intellectual Property

The National Intellectual Property Center of Georgia “Sakpatenti” is a governmental agency – a legal entity of public law that determines the policy in the field of intellectual property.

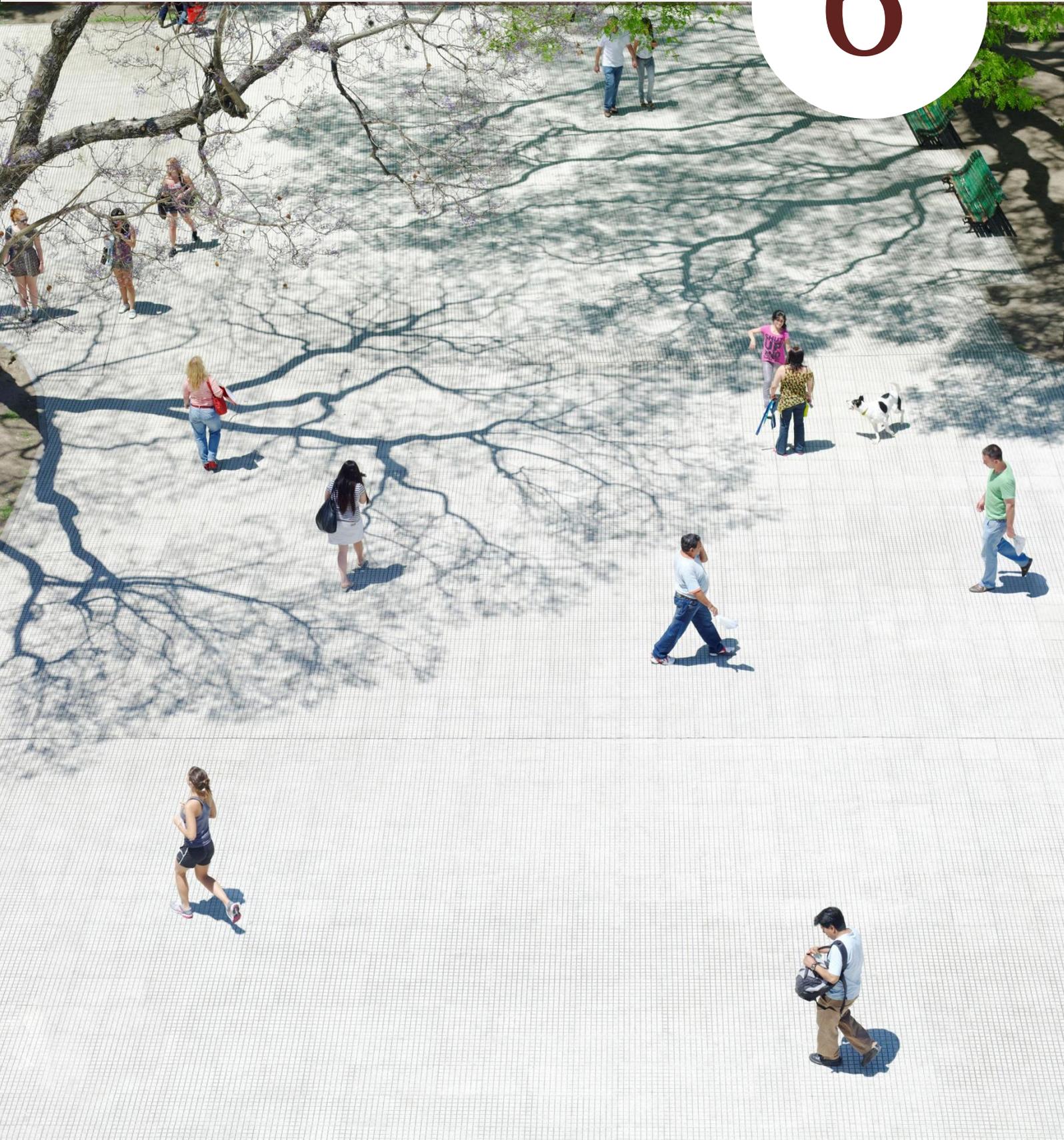
Under Georgian legislation, the patent is a monopoly right granted by the state to the inventor or his successor on the basis of which the patent holder may prohibit any person from using his/her invention or utility model protected by the patent. A patent certificate issued by the Sakpatenti confirms the granting of such monopoly rights to an individual or legal entity. The validity term of a patented invention is 20 years from the filing an application with the Sakpatenti. In case of utility mode, such term is 10 years.

A trademark as well as a design are subject to registration at Sakpatenti. Such registration entitles the holder to prohibit unauthorized use of his/her trademark or design. The validity term of the registration is 10 years with possibility of its further extension.

Georgian legislation does not provides for mandatory registration for copyrights and therefore, the copyright on the work derives from the moments of its creation.

# Accounting and Audit Requirements

6



## 6 Accounting and Audit Requirements



### 6.1 Accounting

Accounting is governed by the Law on Accounting, Reporting and Auditing (“the Law”) and is regulated by the Service for Accounting, Reporting and Auditing Supervision (“the Agency”).

#### Scope of Law

The new Law on Accounting, Reporting and Audit has entered into force in June 2016. The law aims to harmonize accounting, reporting and audit activities carried out in private sector with EU Directives.

The law provides legislative grounds for preparation and submission of accounting, financial and managerial reporting; for reports on payments made to the state budget; for professional certification and quality assurance; for state supervision on audit and accounting services.

#### Supervisory Body

A special body (Agency) has been established within the Ministry of Finance, which ensures state supervision over the accounting, reporting and auditing activities. The law provides that the body in charge for supervision of auditing and accounting services shall publish audit register and reports provided by the companies.

The functions of the Service for Accounting, Reporting and Auditing Supervision are to:

- develop common policy, rules and the other normative acts in the area of financial accounting and reporting and auditing.
- define rules and requirements for auditing.
- define rules for quality control system and monitor quality control system of Auditors/ Audit Firms.
- define requirements for professional certification, examination procedures and continuous education in accordance with International Education Standards set by the IFAC and EU Directives and approve respective standards.
- exercise compliance monitoring of professional organizations, examination bodies and other persons engaged in professional educational activities with this Law and regulations and standards of the Agency.

Financial statements must be prepared by and submitted as follows:

- legal entities of public and private law, except for budgetary organizations provided for in the Budget Code of Georgia
- branches of nonresident entities
- sole proprietors

All the above mentioned reporting entities should meet the size criteria for enterprises specified by the Law.

The 2018 edition of International Financial Reporting Standards (IFRS) has been translated, fully adopted, and made mandatory together with International Financial Reporting Standards for Small and Medium-sized Entities considering the category of reporting entity prescribed by the Law and the standard on the financial reporting for the IV category entities.

#### Reporting Standards and Audit Requirements

For the purposes of application of accounting and financial reporting standards and defining obligation of mandatory audit, the companies are divided into 4 categories according to different criteria, which is summarised in the below table:

| Size of entity | Basis of accounting | Total value of assets GEL | Revenue GEL       | Average number of staff |
|----------------|---------------------|---------------------------|-------------------|-------------------------|
| Very small     | Special rules       | < 1 m                     | < 2 m             | < 10                    |
| Small          | IFRS/IFRS for SMEs  | > 1 m<br>< 10 m           | > 2 m<br>< 20 m   | > 10<br>< 50            |
| Medium         | IFRS/IFRS for SMEs  | > 10 m<br>< 50 m          | > 20 m<br>< 100 m | > 50<br>< 250           |
| Large          | IFRS                | > 50 m                    | > 100 m           | > 250                   |
| PIE            | IFRS                | N/A                       | N/A               | N/A                     |

| File accounts by 1 October | Audit | Management report | Effective from 31/12 |
|----------------------------|-------|-------------------|----------------------|
| ✓                          | *     | -                 | 2018                 |
| ✓                          | *     | -                 | 2018                 |
| ✓                          | ✓     | A                 | 2017                 |
| ✓                          | ✓     | A                 | 2017                 |
| ✓                          | ✓     | A, B, C           | 2017                 |

\* **Exempt** unless covered by other legislation

\*\* **Management report** – effective from 1 January 2018

**A** - Review of the entity's activities

**B** - Corporate governance statement – only needed if shares are listed on the stock exchange

**C** - Non-financial report - only needed for those PIEs which meet the large criteria and have more than 500 employees

**PIEs** - Companies that are listed on the stock exchange; banks, insurance companies, micro-finance organizations and credit unions; non-state pension schemes; investment funds; and other entities defined as PIE by the Government.

# Tax System and Administration

7



## 7 Tax System and Administration

### 7.1 Tax system

In 2005, Georgia introduced a new tax code that made radical changes to the tax system. Low tax rates were introduced and the 21 taxes that applied in 2004 were reduced to six in 2005.

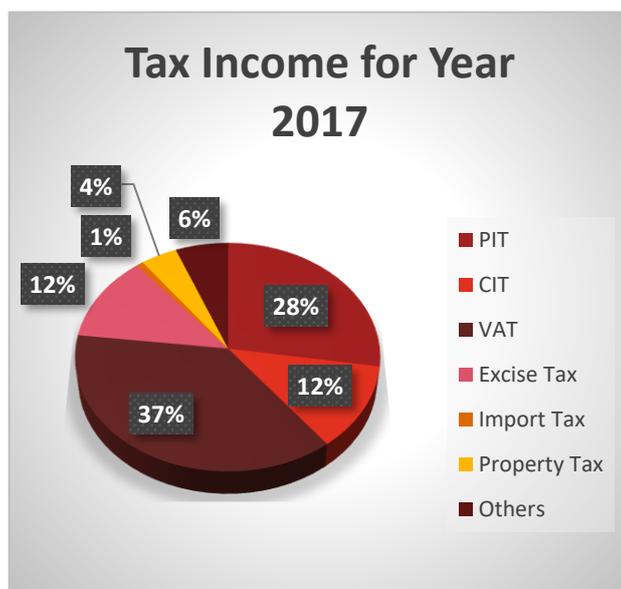
In 2010, another new tax code was enacted to take effect from 1 January 2011. The new code consolidated the tax and customs rules into a single code. In addition, the new code implemented further initiatives under three main objectives:

1. **Taxes should be simplified.** Special rules for individual entrepreneurs should encourage small businesses to legalise their operations. Registered micro businesses (annual turnover below GEL 30,000) will be completely exempt from tax. Registered small businesses (annual turnover below GEL 500,000) will pay a turnover tax of 1% or 3%.
2. **Trust in the tax system should be increased** through the formation of a stable and sustainable tax environment, simplifying the language of the code to remove ambiguities, and making tax administration more reasonable. A new chapter was introduced on taxpayer rights. Taxpayers who believe their rights have been violated may make a complaint to the Business Ombudsman. Efforts were also made in the new code to improve the integrity of the administrative appeals process.
3. **Georgian tax legislation should be better aligned with international best practice and EU directives.** New transfer pricing rules were introduced, and the VAT rules were amended to adopt several measures from the EU VAT Directive.

The new code was passed relatively quickly and taxpayers expect there to be some practical problems when the new code is implemented. Increased withholding taxes on non-residents and new transfer pricing and thin capitalisation rules send mixed signals concerning the government's ongoing tax policy toward foreign investment.

### 7.2 Direct and indirect tax burden

Portion of the taxes accounted for just over 92.22% of government revenues in 2017. Taxes on income, profits and capital gains accounted for 36.51% of tax collections, while 61.99% came from taxes on goods



and services, 1.5% came from property tax, import tax and other taxes.

### 7.3 Principal taxes

There are five taxes imposed at the national level: corporate income tax, personal income tax, excise tax, customs tax and value added tax.

Property tax is levied at the municipal level. Land tax is levied as a component of the property tax.

To see the tax rates at glance, refer to Appendix 2.

### 7.4 Legislative framework

Taxes and levies, as well as penalties for non-compliance, are set out in the tax code.

In general, international agreements prevail over local legislation.

The Georgian Ministry of Finance may issue orders or instructions to clarify the application of tax laws. Orders and instructions must be consistent with the Georgian tax code or they do not have legal force. Nevertheless, even if there is some doubt about the validity of an order or instruction, it is still prudent to consider tax authorities interpretations and the risk of conflict with the tax authorities before taking a position based on the law.

Georgia does not follow case law.

## 7.5 Tax treaties

Georgia has 55 tax treaties in force as of 30 September 2018. A summary of withholding rates under the various treaties is provided in Appendix 3.

Under current rules, taxpayers are not required to obtain confirmation of treaty relief from the authorities, however certain administrative procedures should be followed which involve filing an application form, along with a certificate of tax residence that has been apostilled or legalised in the investor's home country.

## 7.6 Administration of the tax system

All taxes are administered by the Tax Department of the Ministry of Finance of Georgia.

The rates for property tax are assessed by the local authorities, within limits set by the tax code.

## 7.7 Registration requirements

Tax registration is conducted together with state registration with National Agency of Public Registry. The registration process should take no more than one day once all required documentation is obtained and submitted to the relevant authority.

Persons subject to VAT are required to separately register for VAT.

## 7.8 Tax returns and payments

Since 1 January 2010, all taxpayers have been required to file tax returns electronically.

### Corporate income tax

From 2017 Georgia switched to a new model (so-called Estonian model) of taxation of companies profits. This means that, Georgian companies and non-residents having permanent establishment in Georgia are no longer subject to corporate income tax on the accrued profits, but should levy tax once they are distributed. Under the new model, they are required to submit their corporate income tax return (also referred to as the profit tax return) and pay the corresponding taxes on monthly bases before 15<sup>th</sup> of the following month.

Commercial banks, credit unions, insurance companies, microfinance organizations, and pawn shops will be affected by this new profit tax regime after 1 January 2023. Before that they should submit profit tax return by 1 April following the calendar year.

The companies under the old regime are subject to advance quarterly tax payments, which are made in equal instalments, the deadlines for which are: 15 May, 15 July, 15 September, and 15 December. Each advance payment is equal to 25% of the tax paid for the previous year. Any residual liability must be paid by 1 April of the following year.

A taxpayer with no corporate income tax payable for the previous year is not required to make advance payments.

### Individual income tax

Individuals receiving Georgian source income without taxation at the source of payment should submit an income tax declaration and pay the corresponding taxes before 1 April of the following reporting year.

### Value added tax

The accounting period for VAT is a calendar month.

A taxpayer is required to submit the VAT return and pay the respective tax to the local tax authorities within 15 days after the end of the accounting period.

### Property (and land) tax

Enterprises must submit property and land tax declarations before 1 April of the year following the year for which taxes are being assessed:

- Property tax is paid in two instalments. An advance payment is made on 15 June, equal to the property tax payable for the previous year. The balance is then due before 1 April of the following year, when the property tax return for the year is filed.
- The amount of land tax is subject to assessment by the authorities and must be paid before 15 November.

Individuals are subject to different rules. They are required to submit property and land tax returns before 1 November and to pay the corresponding taxes before 15 November.

## 7.9 Assessments

Taxpayers make returns and payments on a self-assessment basis. However, if the tax authorities determine that the tax disclosed on the return is incorrect, they may assess taxes within three years from the end of the year in which the return is filed. Statutory period is 3 years and this period could be extended to 11 years if a taxpayer elects to carry forward losses beyond the normal five-year loss carry forward period.

The amount of a tax assessed, as well as any fines and penalties, should be paid within 30 calendar days after receiving the payment order.

## 7.10 Appeals

A taxpayer may choose to appeal to the Revenue Service or the Court against a decision of the tax or customs authorities. Any appeal must be received by the Revenue Service or the Court within 30 calendar days following receipt of the notice. If the taxpayer is appealing a refusal when the tax authorities have failed to act, the appeal must be received within 30 calendar days following the date by which the tax authorities were required to act.

If an appeal to the Revenue Service is unsuccessful, the taxpayer has 20 calendar days to escalate the

appeal to the Appeals Board under the Ministry of Finance.

If an appeal to the Appeals Board is unsuccessful, the taxpayer has 20 calendar days to escalate the appeal to the courts.

It is important that any appeal is presented or escalated within the prescribed deadlines, otherwise the notice, demand for tax payment or other administrative-legal act under dispute will take final effect, and the appeal will not be considered.

The Revenue Service, and later the Appeals Board, each have 20 working days to consider the appeal. The Revenue Service and the Appeals Board may extend the period by up to 45 calendar days, in which case the taxpayer will receive written notification of the extension. The Revenue Service and the Appeals Board have five additional working days to deliver their response to the taxpayer.

If a taxpayer does not receive a response from the Revenue Service or the Appeals Board within the deadline, the taxpayer is entitled (but not obliged) to treat the appeal as rejected and to elevate the dispute to the next level.

If the taxpayer chooses to appeal initially to the Revenue Service, the taxpayer may elevate the appeal to the Court at any time during the appeal process. In that case, consideration of the appeal within the Revenue Service or the Appeals Board will cease.

### 7.11 Withholding taxes

With the exception of employers operating in a FIZ, employers are required to withhold personal income tax at source on a monthly basis from their employees' salaries. The taxes are remitted to the state budget on the same day that they are deducted. The monthly personal income tax return should be submitted by the employer before the 15th day of the following month.

Payments of interest are generally subject to 5% withholding tax, although a number of exemptions exist. Interest payments to non-residents registered in black listed countries are subject to 15% withholding tax.

Payments of royalties to non-residents are subject to 5% withholding tax, though when the recipient is registered in black listed country the taxable rate would comprise 15%.

Dividend payments (except to another Georgian entity) are subject to 5% withholding tax.

Payments of income to oil and gas subcontractors are subject to 4% withholding tax.

Payment to non-residents for international transportation and international communications is subject to 10% withholding tax.

Payments to non-residents for insurance are subject to 0% withholding tax.

Payments to non-residents that are not covered by the rates indicated above are subject to 10% withholding tax. For the payments performed to non-residents registered in black listed countries the applicable tax rate will be 15%. The Government of Georgia determines the list of black listed countries.

Withholding tax rates for non-residents may be reduced under a relevant tax treaty.

### 7.12 Tax audits

Georgian tax law envisages two types of tax audit:

A desk audit involves a tax officer determining the consistency of a taxpayer's liabilities with the requirements of the tax code without visiting the taxpayer's place of activity. The determination is based on an analysis of financial reports, tax returns and other data in the possession of the tax authorities, as well as explanations and accounting documents requested from the taxpayer. If errors are revealed during the desk audit, the taxpayer is notified in writing in the form of a Tax Audit Act.

A field audit consists of a full or random audit at a taxpayer's place of activity of documents related to the calculation of taxes. A field tax audit can be planned or urgent. A taxpayer will receive a notification letter at least 10 days in advance for a planned field audit. The audit must then start within 30 days or the notification becomes invalid. A taxpayer will not receive any notification for an urgent audit, but such an audit may proceed only if the tax authorities receive permission from the court based on statutory criteria.

The authorities may conduct a field audit for any period that has not already been audited. However, in rare circumstances, a higher authority may with the agreement of the court audit a period that has been audited previously.

The tax authorities must complete a tax audit within three months of the start date. This period may be extended by two months if needed.

### 7.13 Other control procedures

The tax authorities are allowed to undertake various control procedures outside the framework of audits. An authorised representative of the tax authorities may:

- Pose as a customer and make a controlled purchase of goods from a taxpayer.
- Observe the areas and buildings belonging to the person under review.
- Check that persons supplying goods or services to consumers are recording the details of cash payments properly by means of cash registers.

The tax authorities may perform a chronometric review. This review involves a tax official visiting the premises of a taxpayer for a period of time and observing sales activity for a period of at least seven days.

### 7.14 Penalties

The following are some of the main penalties that may arise under the Georgian tax code for non-compliance with return filing and tax payment requirements:

- Late submission of a tax return results in a penalty of 5% of the unpaid tax amount for each month past due (up to a maximum of 30% of the total tax due and subject to a minimum penalty of GEL 50).
- An understated tax liability results in penalties of 50% of the understated tax. If the understatement is a consequence of changing the accounting period of the tax liability, it will attract penalty 10% of the understated tax.
- Significant tax evasion (an understatement of more than GEL 100,000) could be treated as a criminal case.
- Late payment of taxes is subject to an interest penalty of 0.05% of the amount payable for each overdue day. The penalty (“fine”) is imposed only on the underlying tax liability, and does not apply to tax penalties.

If a taxpayer makes a voluntary disclosure of underpaid taxes, the only penalty that will apply is interest for late payment.

Penalties for other offenses include:

- If a taxpayer (other than a micro business) makes cash sales to customers but does not have a cash register, a penalty of GEL 200 applies.
- Failing to use a cash register in cash settlements with customers is subject to a penalty of GEL 200.
- Issuing cash receipt for an amount that is less than the actual payment is subject to a penalty of GEL 200.
- The loss of a cash register, if it cannot be demonstrated that the loss was caused by the unlawful action of another person, is subject to a penalty of GEL 3,000. Losing a second cash register within 60 days of the first loss is subject to a penalty of GEL 6,000.
- Using metering devices at fuel stations without the seal of the tax authority is subject to a penalty of GEL 1,500. Repeated offences within a 12-month period are subject to a penalty of GEL 15,000.
- Transporting goods that have a market value of GEL 10,000 or less without a proper bill of lading is subject to a penalty equal to the lesser of GEL 500. For a second offence within a 12-month period, the minimum penalty is 5,000.

- The penalties still apply if a bill of lading exists, but it lacks the date and number of the document, the name and identification number of the parties to the transaction, or information about the name and volume of the goods.
- The penalties will not apply to:
- The penalties will not apply to:
  - Transportation of initial agricultural products.
  - Regular transportation of gas or water.
  - Transportation of goods with appropriate customs documents.
  - Transportation of goods with a special VAT invoice that includes the details envisaged by the bill of lading exists.
  - Transportation of the marketing materials for free of charge distribution purposes which have no independent consumer specifications and are integral part of the delivery of the main product.
  - Transportation of precious metals and stones, if the task is performed with a special safe means of transport or is under control.
  - Persons who have the status of a micro business.
- The violation of taxpayer registration procedures is subject to a penalty of GEL 500.
- Resisting an authorised tax official who is observing the activities of a taxpayer is subject to a penalty of GEL 800. Repeated offences within a 12-month period are subject to a penalty of GEL 2,000.
- The violation of seized property ownership, utilisation or disposal rules is subject to a penalty of GEL 4,000.
- Failing to submit accounting documents or other information to the tax authority required under the law is subject to a penalty of GEL 400. Repeated offences within a 12-month period are subject to a penalty of GEL 1,000.
- Revealing the shortage of inventory is qualified as their supply at market price. Besides, if the inventory shortage has been revealed by the tax authorities through stocktaking exercise it would additionally lead penalty 10% of market price of the revealed inventory
- The penalty for offences that are not subject to specific penalties is GEL 100.

VAT-specific penalties are discussed in section 11.8.

### 7.15 Tax settlements

In late 2009, the government introduced the concept of Tax Agreement. A Tax Agreement involves the

possibility of concluding a tax settlement between a taxpayer and the Government:

- The taxpayer submits an application to the Revenue Service to conclude the agreement and attaches relevant materials, including a proposal for settlement.
- The Revenue Service presents the application to the Minister of Finance for resolution at a session of the Government.
- The Government makes a decision about concluding the contract and the amount of payable tax liabilities and the terms of payment are specified.
- The taxpayer's tax liabilities are fixed on the day the contract is concluded. The taxpayer will be unable to adjust the data in its tax returns for the covered period, while the tax authorities will be unable to accrue additional tax liabilities to the taxpayer for the covered period.

A formal tax agreement will be concluded between the Revenue Service and the taxpayer.

The taxpayer may appeal a tax agreement if it is concluded by an unauthorized person.

#### **7.16 Tax clarifications**

Taxpayers may request written explanations from the tax authorities on the application of specific tax laws. Such explanations are not legally binding and do not provide solid protection against tax assessments and

penalties. However, in practice a written explanation may be useful in resolving disputes with local tax authorities regarding uncertainty in the tax legislation.

#### **7.17 Advance (binding) rulings**

Any taxpayer may apply for an advance ruling for a completed or proposed transaction. The ruling must be issued within 90 days of the application. The ruling is binding on the tax authorities, but only for the taxpayer for whom it is issued.

The cost of applying for an advance ruling is GEL 10,000 if the applicant's annual turnover exceeds GEL 10 million and for non-residents having no permanent establishment in Georgia, otherwise applying fee comprises GEL 5,000.

A taxpayer who receives a negative ruling may appeal the advance ruling through the appeals process, or refine the facts and ask the authorities to reconsider their decision.

# Taxation of Corporations

8



# 8 Taxation of Corporations

## 8.1 New corporate tax system

### General framework

From 1 January 2017 a new model of Corporate Income Tax (CIT) was enacted in Georgia, which represents adoption of the Estonian model of CIT. The main purpose of the new CIT model is to encourage domestic and foreign investments by taxing the businesses when they will extract the profits. This means, that the retained profit will no longer be taxable until they are distributed. New model is mostly designated to defer the taxation moment.

### Companies

Georgian entities and foreign entities doing business in Georgia through a permanent establishment will no longer need to determine taxable gross income and allowable deductions in order to arrive at the taxable profits. They rather should apply a standard CIT rate of 15% on grossed up profits once they are distributed or deemed distributed to shareholders being a non-resident or an individual.

Distributable profits should be determined as per financial accounting of the company.

Starting from 1 January 2019, organisations conducting economic activities will have to impose CIT on the taxable transactions of the new regime (except for profit distribution) in case such transactions will not be related to their economic activities and/or the purposes of the organisation.

### Taxable transaction

According to new regime the following transactions are taxable subject to CIT:

- Profit distribution.
- Non-business expenses.
- Free delivery of goods/services and/or transfer of funds.
- Representative cost incurred over the certain limit.

Transfer pricing adjustment is deemed as a profit distribution and is subject to CIT.

Besides, the tax code lists type of operations related to the entities registered in the countries with preferential tax regimes and to the taxpayers exempt from Georgian CIT, which are subject to taxation:

- Purchase of debt securities issued by such entities.
- Payment of the contractual fines and penalties.
- Payment of advances.
- Provision of the loans.
- Acquisition of debt claim toward such entities.
- Losses derived from transfer the right of claim to such entities.
- Losses derived from discharging of claims receivable from such entities.
- Acquisition of shares/stocks of the non-residents and companies exempt from CIT and contribution into equity of such entities (Please note that here is concerned not only persons registered in the countries with preferential tax regime, but generally all non-residents).

The list of countries (or separate territories of certain jurisdictions) with the preferential tax regime is defined by the Georgian government.

### CIT credit mechanism

It should be noted that the tax legislation introduces special mechanism in order to mitigate double taxation of the distribution of profit earned before 2017 (i.e. profits earned and taxed under old CIT regime).

In short, when a company distributes profits related to period 2008-2016, the law allows to credit the CIT paid under the old regime on the same profits. Credit amount should not exceed the actual payable amount on the profit distribution as per the new regime.

### Exempt transaction

GTC also provides a list of the operations, which are not subject to taxation. It inter alia includes:

- Distribution of dividends to companies which are also taxable under the new CIT regime;
- Distribution of dividends which in turn are received from a foreign company, other than received from a non-resident registered in the country having preferential tax regime;

- Payments to shareholders in case of liquidation of a company or buy-out of stocks/shares, when such payments do not exceed the contributions of the shareholders;
- Distribution of profit earned by the permanent establishment of a non-resident enterprise before 1 January 2017.

### Dividends

While paying dividends to individuals and foreign entities not having a permanent establishment in Georgia the companies must withhold tax at a rate of 5%. A lower rate may apply under a relevant tax treaty.

As for the CIT due, it is determined at a flat rate of 15% applied on the grossed up value of the taxable transaction. For instance, company paying net dividend in the amount of GEL 95 will withhold tax at 5% (i.e.  $GEL\ 5 = 95 / 0.95 * 5$ ) at source, and will apply 15% on distributed dividend GEL 100 (i.e.  $95 + 5$ ) through grossing up method (i.e.  $GEL\ 17.65 = 100 / 0.85 * 0.15$ ).

Dividends paid between resident companies are exempt from income tax.

### Territoriality

A resident enterprise is any legal entity established under the law of Georgia, or that has its place of effective management in Georgia.

Resident entities are liable to Georgian tax on their worldwide income. Foreign taxes should be available for credit against Georgian tax liabilities, up to the amount of Georgian tax payable on the foreign income.

Foreign entities are liable to Georgian tax only on income from sources in Georgia. In broad terms, income will have a source in Georgia if:

- The income arises from activities performed or property located in Georgia; or
- In the case of passive income (e.g., dividends, interest and royalties), financial services and insurance services, the income is paid by a resident of Georgia.

### Consolidation

There is no system of group taxation in Georgia. Members of a group must file separate tax returns. There are no provisions to allow losses to be offset against the profits of another group member.

### Permanent establishments

The domestic definition for a permanent representation essentially adopts the definition for permanent establishment found in the OECD Model Tax Convention.

The taxable income of a permanent establishment is determined and taxed in the same manner as that of resident companies.

A foreign company that earns income from the provision of services within Georgia is subject to 10% withholding tax if the company does not have a permanent establishment in Georgia. However, relief may be available under a relevant tax treaty.

A non-commercial representative office established to engage in liaison type activities will generally not be subject to profit tax.

## 8.2 Incentives

### Free industrial zone (FIZ)

A FIZ may be established on a piece of land exceeding 10 hectares. It may be established by the initiative of the Georgian Government or upon the request of an organiser, resident or non-resident physical or legal person for land that they own or lease.

Transactions in a FIZ may be conducted in any currency. Payment between an industrial free zone enterprise and a regular Georgian enterprise may also be conducted in any currency. The regulations do not permit a building or structure inside a FIZ to be used as a residence.

Production or manufacturing of any kind of goods and services are permitted in a FIZ, with the exception of, nuclear, radioactive substances, arms and munitions, narcotic and psychotropic goods, and excisable goods.

One of the purposes of establishing the zones is to promote local employment. Entities operating in a FIZ are not required to withhold tax from payments to employees. However, the employees are required to account for their own taxes through self-reporting on a monthly basis.

### International Financial Company, Special Trade Company and Free Industrial Zone Company

Incentives have been established for entities established as an International Financial Company, a Special Trading Company or a Free Industrial Zone Company.

A Free Industrial Zone Company is a registered entity located inside a FIZ that has confirmed its status with the tax authorities. Income received by a Free Industrial Zone Company from its permitted activities conducted in a Free Industrial Zone is exempt from profit tax. It should pay tax 4% on market price of the goods supplied to a person registered under the Georgian law (excluding on the supplies to other FIZ Company).

A Special Trading Company is a company that has confirmed its status with the tax authorities. A Special Trading Company may sell and re-export foreign goods. A Special Trading Company is exempt from

profit tax on income received from selling and re-exporting foreign goods.

An International Financial Company is a financial institution that conducts most of its business with parties outside Georgia, and is located outside a FIZ. Profit received from financial services provided by an International Financial Company is exempt from

profit tax, as are gains from the sale of securities issued by an International Financial Company.

If an International Financial Company's income from Georgian sources exceeds 10% of its gross income, it will be subject to a 100% penalty on the excess amount.

### 8.3 Old corporate tax system

Commercial banks, credit unions, insurance companies, microfinance companies and pawn shops are remaining under the CIT regime till 1 January 2023.

#### Gross income

#### Accounting period

The reporting year for companies follows the calendar year.

#### Business profits

Taxable profits are defined to be the difference between a taxpayer's gross income and deductible expenses. Gross income encompasses all revenues received by a taxpayer from all economic activities, unless the revenues are expressly exempted under the law. Deductible expenses encompass all necessary and documented expenses that are directly related to conducting business or earning profit, unless a specific provision in the law restricts the deduction.

#### Accounting for income and expenses

The taxpayer may use either the cash or accrual method of accounting for tax purposes as long as one method is applied consistently throughout the year. However, the taxpayer has to use the same method of accounting for both financial reporting and tax purposes.

#### Exempt income

Dividends derived by a Georgian entity (including dividends from foreign companies) are exempt.

Interest received from government bonds and gains derived from the sale of those bonds are exempt.

Gains from the sale of bonds when more than 25% of their issue have been traded on the Georgian Stock Exchange for the last two years are exempt.

Interest received by a non-financial institution from a licensed financial institution is exempt.

## Deductibility of expenses

### Business expenses

Properly documented expenses that are necessarily incurred in the furtherance of a taxpayer's business activities should be deductible, unless a specific provision in the law says otherwise (refer below).

### Non-deductible expenses

- The following are the main items that are not deductible for corporate income tax purposes:
- Expenses not related to a taxable business or connected with the derivation of tax-exempt income.
- Expenses for charitable donations are limited to 10% of taxable profit
- Representation expenses are limited to 1% of the gross income of the reporting year.
- Payments to a micro business are non-deductible.

### Inventories

Raw materials, goods supplied, work in progress and finished goods are valued at cost, including costs relating to their acquisition. The law permits the use of the weighted average, first in-first out (FIFO) as well as the separate valuation of inventory items.

### Depreciation and amortisation

The declining balance method of depreciation is applied to fixed assets for tax purposes. The rate and approach to depreciation depends on the group into which each asset falls.

| Group | Description of assets  | Rate |
|-------|--|------|
| 1     | Passenger cars, tractor equipment for use on roads; office furniture, automotive transport rolling stock; trucks, buses, special automobiles and trailers; machinery and equipment for all the sectors of industry and the foundry industry; forging and pressing equipment; construction equipment; agricultural vehicles and equipment | 20%  |
| 2     | Special tools, inventory and equipment; computers, data processing peripheral devices and equipment; electronic devices  | 20%  |
| 3     | Railway, sea and river transport vehicles; power vehicles and equipment; thermal technical equipment; turbine equipment; electric engines and diesel generators; electricity transmission and communication facilities; pipelines  | 8%   |
| 4     | Buildings and constructions  | 5%   |
| 5     | Other assets   | 15%  |

Buildings and constructions (Group 4 assets) are depreciated on individual basis.

Assets costing less than GEL 1,000 are deducted as expenses in their period of acquisition.

Land, artworks and museum exhibits and objects of historical significance are not able to be depreciated.

For other assets, a pooling approach is used:

- All of the assets of each group are aggregated in a pool.
- The depreciation deduction for the year is determined by applying the relevant depreciation rate to the book value of the assets in the group.
- The book value is calculated as the opening book value for the group, increased by the value of any group assets acquired in that year and reduced by the proceeds from the disposition of any group assets in that year. If the book value of the assets in a group is less than GEL 1,000, the full amount would be deducted (rather than applying the normal depreciation rate).
- If the book value of the assets of a group is negative (the proceeds from disposing of assets in the group exceed the opening book value plus the cost of any acquisitions), the negative amount is reported as taxable income and the book value of the group is reset to zero.
- If all of the fixed assets of a group are sold or liquidated but the book value of the group exceeds zero, the book value of the group is deducted as an expense and the book value of the group is reset to zero.

For groups 2 and 3, a taxpayer may use rates up to double the standard depreciation rate.

A taxpayer may also elect to fully expense the cost of fixed assets in the year in which the fixed assets are put into operation (a form of capital allowance). However, should a taxpayer choose this approach, the 100% deduction method may not be changed for five years.

The cost of intangible assets is amortised over their useful using the straight-line method life if the useful life is determinable. If the useful life of an intangible asset cannot be determined, a 15% rate applies. Each intangible asset is amortised separately.

### **Expenses on fixed assets**

Expenses incurred in the repair and maintenance of a fixed asset are deductible, unless the expense improves the condition of the fixed asset. The deduction is limited to 5% of the book value of the relevant asset at the end of the previous year. Any excess is capitalised and included in the base for depreciation purposes.

### **Interest**

As a general rule interest will be deductible if the related debt is used to fund business activities of the taxpayer. Currently, the maximum deductible interest rate is 24%.

No thin capitalization rules are applicable in Georgia.

### **Foreign exchange**

Realised foreign exchange gains are taxable and realised losses are deductible.

### **Bad and doubtful debts**

A taxpayer is entitled to deduct bad debts only if the following conditions are all met:

- The debt relates to goods or services sold by the taxpayer.
- Income received from the sale of goods or services was previously included in taxable gross income.
- The debt has been written off and recorded as such in the taxpayer's accounting records, based on a decision by the courts that the debtor is bankrupt or unable to repay the debt.

### **Royalties and services fees**

Royalties and service fees are deductible payments.

### **Leasing**

Lease payments on operating leases are deductible. The lessor claims a deduction for depreciation of the leased assets.

Before 2010, financial leases were treated as a sale for profit tax purposes. The lessor would recognise income from a sale of assets and revenues from financing. The lessee would deduct depreciation expense and financing costs.

This treatment changed from 1 January 2010. Policymakers were concerned about how to address the challenge of determining whether there was a substantive sale for tax purposes, and what to do if title never transferred to the lessee. To address this, the law was amended and the same VAT and profit tax treatment generally applies to both financial and operating leases.

There are some broader tax distinctions between operating and financial leases (as the term is defined in the civil code).

### **Employee remuneration**

Employee remuneration is deductible.

### **Taxes**

Georgian taxes, other than income tax, are generally deductible. Revenues and expenses are determined net of VAT.

## Losses

Companies are entitled to carry forward losses to the five subsequent income years.

A taxpayer may extend the loss carry-forward period from five to ten years by applying to the tax authorities at their place of registration. One consideration is that this also results in extending the statute of limitations period to 11 years (up from the current six year limit).

International Financial Companies, Special Trading Companies and Free Industrial Zone Companies may not carry forward losses.

## 8.4 Related party transactions

The government enacted new transfer pricing rules with effect from 1 January 2011.

The tax authorities may adjust prices for tax purposes when the value of a transaction between related parties differs from the market price.

Taxpayers are related if special relations exist between them that may affect the conditions or economic results of their activities. Special relations are defined to include specifically:

- An entity and any person who directly or indirectly owns at least 50% of that entity.
- Two entities that are under direct or indirect control of a third person.

The tax code recognises the five OECD transfer pricing methods (comparable uncontrolled price method, cost plus method, resale price method, net margin method and profit split method) as acceptable methods to evaluate whether prices are market.

## 8.5 Other taxes

### Excise tax

Excise tax is levied on specified goods which are produced in Georgia or imported. Excise tax is generally calculated with reference to the quantity of goods (e.g. volume, weight), or in the case of automobiles on the basis of the engine's displacement and vehicle age.

Excise tax applies to alcoholic drinks, condensed natural gas (except for pipeline), oil distillates, goods produced from crude oil, tobacco products, automobiles, provision of international call termination service, fluid for electronic cigarettes.

The export of excisable goods is taxed at 0%.

Excise duties on imported goods are paid upon importation. Other excise duties must be paid and excise tax returns submitted before the 15th day of the month following the taxable transaction.

## Land tax

Land tax rates depend on the use of the land plot and its location.

Annual property tax rate for agricultural land varies according to the administrative unit and the land quality. The base tax rate per 1 hectare varies from GEL 1.5 to GEL 100. The tax is further adjusted by a territorial coefficient of up to 150%, depending on the location.

The base tax rate payable on non-agricultural land that is used for economic activity (including rent) is GEL 0.24 per square metre, and the actual rate set by the relevant local government body should not be more than 150% of this rate.

Property located in a FIZ is exempt from land tax.

## Property tax

Property tax is payable at maximum rate of 1% on the annual average residual value of fixed assets (except land) on the balance sheet of Georgian entities or foreign entities with taxable property in Georgia.

For persons other than government-owned companies, the value of immovable assets is also multiplied by an indexation coefficient based on the age of the assets, unless the entity has financial statements that record fixed assets using revaluation methods (with the most recent revaluation no more than four years ago) and has audited financial statement.

- For assets acquired before 2000 (or if no acquisition information is available), the coefficient is 3.
- For assets acquired between 2000 and 2004, the coefficient is 2.
- For assets acquired in 2004, the coefficient is 1.5.

Generally, the lessor is responsible for paying property tax on leased assets. However, if the lessor under a financial lease is a non-resident and the lessee is an individual, the liability for property tax falls on the lessee.

Property located in a FIZ is exempt from property tax.

## 8.6 Branch versus subsidiary

The income of branches and subsidiaries are taxed on the same basis.

Dividends paid by a subsidiary are subject to 5% withholding tax, while, repatriation of income from branches is not subject to withholding tax.

## 8.7 Holding companies

There are no rules to permit the grouping or consolidation of income and losses among a commonly owned group. Dividend income received from another company is not subject to tax.

# Taxation of Individuals

9



## 9 Taxation of Individuals

### 9.1 Territoriality and residence

At the start of 2009, Georgia shifted from taxing residents on worldwide income to a territorial system of taxation. Both resident and non-resident individuals are subject to tax only on income that has a Georgian source.

Georgian source rules generally follow international norms. An important exception, however, is that salary has a Georgian source if it is paid through a Georgian payroll, regardless of where the employment is exercised.

#### Tax residence

An individual is treated as a resident if he or she is present in Georgia for more than 183 days in any continuous 12-month period, including the time he or she spent outside the country for purposes of medical treatment, vacation, business trip or study.

### 9.2 Tax rates

A flat tax of 20% applies to most forms of income.

Dividends are subject to 5% tax.

Interest is subject to 5%.

### 9.3 Gross income

Resident taxpayers are liable to pay tax in respect of



any income that has its source in Georgia.

#### Employment income

All income received or credited from employment in monetary form or in kind during a calendar year is subject to personal income tax. Taxable benefits include:

- Goods or services sold to an employee for less than their market price.
- Life and health insurance and pension fund premiums or other similar payments made by the employer for the benefit of an employee.
- Reimbursement of an employee's expenses or payments for his or her family's benefit.
- Use of an employer's automobile for private use.
- Per-diems and accommodation expenses received in excess of the established norms.
- Interest advantage on loans granted by the employer at an interest rate lower than the market rate.
- Debt forgiveness by the employer.
- Assistance for education of an employee or his or her dependents, unless those training programs directly relate to the economic activity of the employer.

#### Income from independent activities

Income from independent activities is generally subject to the standard rate.

Special rules apply from 1 January 2011 for individuals operating as a micro or small business.

Registered micro businesses (annual turnover below GEL 30,000 with no employees) will be entitled to a complete tax exemption. A micro business is also not subject to any formal accounting requirements.

Registered small businesses will pay a 1% turnover tax, with exemption from all other taxes. The tax rate increases to 3% if gross income earned by the business exceeds GEL 500,000. A small business is required to maintain only "purchases and sales journal" and cash registers in accordance with Ministry of Finance rules. A salary of up to GEL 6,000 paid in total during a

calendar year by a person having the status of a small business to hired persons shall not be taxed at source if there is one of the following conditions:

- he/she is registered as an individual entrepreneur and is granted the status of a small business within the same calendar year;
- the gross income he/she received during the previous calendar year does not exceed GEL 50,000.

A micro business will lose its status if the tax authorities conduct a stock take and identify that the taxpayer has inventory exceeding GEL 45,000.

A small business will lose its status if the gross income received from the economic activities of a person according to two calendar years exceeds GEL 500,000 in each calendar year or a person has been fined at least three times within a calendar year for the non-compliance with the cash register usage procedures.

From 20 December 2011 a Fix Tax Payer status was introduced. A fix tax payer can be a person (either an entity or an individual) who is not a VAT payer and conducts one or more activities subject to a fixed tax prescribed by the Georgian government. Tax rate may vary from 1 to 2000 Gel on a taxable object or 3 % of the return from a taxable activity. Apart from the activity subject to fixed taxation, a Fix Tax Payer is allowed to conduct business activities only permissible by the Georgian government. In this regime using of a cash register is not compulsory (but only in the part of activities subject to fix taxation).

### Rental income

Gross revenues from property leases are subject to 20% tax.

Gross revenue from renting out a residential area to organizations, legal entities and individuals for dwelling purposes is subject to 5% tax in case if the lessor does not carry out deductions from the aforementioned income and it refers to tax authorities to apply this regime.

### Income from prizes and winnings

Income from lottery of up to GEL 1,000 is exempt from tax. Otherwise, 20% tax applies.

### Investment income

Gains from the sale or exchange of shares or securities are exempt from tax if the shares or securities have been held for more than two years. Otherwise, a 20% rate applies.

Dividends are subject to 5% tax.

Interest (other than interest on government bonds and interest paid by a bank) is subject to 5% tax.

Gross royalties are subject to 20% tax.

## Disposal of real estate and movable property

Gains from the sale of property that is not connected with an individual's business are exempt from tax if the property has been held for more than two years. Otherwise, a 20% rate applies.

### 9.4 Tax-exempt income

In addition to the exemptions indicated in the discussion on gross income, the following are the main items of income that are exempt from taxation:

- Income received from the sale of tangible assets that have been held for more than two years.
- Alimony.
- Gains from the sale of securities issued by an International Financial Company.
- Income received by non-residents from financial leasing of property if it is not related to a permanent establishment they have in Georgia.
- Interest received on government bonds or from a bank.
- Gains derived from the sale of government bonds.
- the following transactions related to securities issued by a resident legal entity through public offering in Georgia and vested on the organized market recognized by the National Bank of Georgia:
  - Income received from supplying such debt securities.
  - Interest income received before 1 January 2023 from such debt securities.
  - Income received by supplying such participation securities.

### 9.5 Deductions

#### Business

For individuals who do not operate their businesses as micro or small businesses, documented expenses incurred directly and exclusively for the purpose of generating business income are deductible.

#### Non-business

Georgia has no substantial personal deductions, allowances or credits.

### 9.6 Taxation of non-residents

Non-residents are subject to the same tax rules as for residents. However, relief from Georgian tax may be available under a relevant tax treaty.

## 9.7 Property tax

Property tax is levied on the following types of property located in Georgia owned by individuals:

- immovable property.
- buildings and uncompleted construction.
- registered cars in Georgia (excluding heavy load vehicles).
- assets listed on the balance sheet (in case of conducting economic activity)
- Families with annual household taxable income of less than GEL 40,000 are exempt from property tax on their taxable property (excluding land). Taxable property owned by families with higher income is subject to tax at rates varying from 0.05% to 0.2% of the property value if annual family income is less than GEL 100,000 and from 0.8% to 1% of the property value if annual family income is GEL 100,000 or more.
- Owners of land located in Georgia and those who use state-owned land in Georgia are subject to property tax. Specific rates apply to land, depending on the location and fertility of the land.

### Compliance

- If the gross income of a family exceeds GEL 40,000, an annual property tax return should be filed at the tax authorities according to the place of tax registration. Filing should be made before 1 November and the corresponding taxes should be paid before 15 November.
- The amount of property tax on land (commonly referred to as “land tax”) is subject to assessment by the authorities and must be paid before 15 November.

## 9.8 Tax compliance

### Obligations of withholding agents

Any income payment by a tax agent (resident legal entity, individual entrepreneur or permanent establishment of a non-resident legal entity), other than an entity located in a Free Industrial Zone, to an individual is subject to withholding.

However, the list of recipients who are not subject to taxation at source includes the following starting from January 1, 2018:

- Individual entrepreneur;
- Individual registered as a VAT payer;
- Notary;
- Private executive;
- Individuals having micro business / fixed payers status.

If an individual receives Georgian source income that is not subject to withholding, he or she must generally register with the tax authorities, self-report that income in an annual tax return and pay the corresponding taxes directly by 1 April of the

following year. However, when salary is earned from an entity located in a Free Industrial Zone, the taxes should be paid by the 15th day of the following month.

Currently, withholding tax from payments to individuals must be transferred to the State Budget on the same day that the individual is paid. If compensation is provided in non-monetary form, taxes should be paid to the budget no later than the last day of the month.

### Tax returns from individuals

Individuals whose income is not fully taxed at the source of payment must file a personal income tax return before 1 April of the following year. The corresponding tax payment is also due before 1 April.

## 9.9 Pension fund

In August 2018, Law of Georgia on Accumulative Pensions entered into force.

According to the law, joining a pension scheme from 1 January 2019 is mandatory for all employees, except for:

- Individuals who have been 60 years/ in case of women - 55 years / before the enactment of the law;
- Self-employed individuals.

Employees who have reached 40 years before enacting the Law may refuse to participate in the pension scheme and request to opt out from it within five months from starting from Jan-2019. Pension scheme will be financed as follows:

- Each employer will transfer 2% of the employee's salary income to his/her private pension account while paying the salary.
- Each employer will transfer 2% of the employee's salary income to his/her private pension account on behalf of its employee.
- Each self-employed individual will transfer 4% of his/her annual income to the individual pension account.
- The government will transfer (i) 2% of the income of the participant to his/her private pension account when the annual salary of the participant/income of the self-employed individual is less than GEL 24,000; and (ii) 1% of the income of the participant when the annual salary of the participant/income of the self-employed individual is between GEL 24,000 and GEL 60,000. In case the annual salary of an employee/income of the self-employed individual is greater than GEL 60,000, the Government will only contribute to the extent of GEL 60,000.

# Value Added Tax

10



# 10 Value Added Tax

## 10.1 Introduction

Georgia operates the input-output model of VAT. Persons subject to VAT deduct the VAT paid on their inputs from the VAT charged on their sales and account for the difference to the tax authorities.

The standard rate of VAT on domestic sales of goods and services and the importation of goods is 18%. Exported goods and related services are VAT exempt with the right to credit input tax.

## 10.2 Taxable threshold

Taxpayers are required to register for VAT if their sales for the 12 preceding calendar months exceeded GEL 100,000, or if they produce or import excisable goods.

Taxpayers must also register if they will make a one-off taxable transaction in the course of economic activity in an amount exceeding GEL 100,000.

Taxpayers whose revenues are below the GEL 100,000 threshold may voluntarily register as VAT payers.

## 10.3 Scope of VAT

Unless there is an express exemption in the law, VAT applies to the transactions, which among others include the following:

- Supply of goods and services where the place of supply is in Georgia (including when supply is made to employees without consideration or goods are used for non-business purposes); and
- Permanent or temporary importation of goods into Georgia.

Starting from 2017 Georgian VAT system has been more approximated to the European Union VAT system by means of charging VAT on advances received upon supply of goods / rendering services, except for:

- supply of goods on a regular and continuous basis which among others include water, gas etc.
- Supply of services on a regular and continuous basis.

## Place of supply for goods

The place of supply for goods is the place where the goods are located when they are sold. For goods that are to be delivered, the supply takes place where the goods are located when they are dispatched.

## Place of supply for services

The general rule is that services are supplied in the place where the service provider's business is located.

Specific place of supply rules apply to the following services:

- Services related to real estate are supplied in the place where the real estate is located.
- Services related to movable property are supplied in the place where the services are performed.
- Services related to culture, art, education, tourism, recreation, physical fitness and sports are supplied in the place where the services are performed.
- Transportation services are supplied in the place where the cargo or passengers are located at the beginning of transportation.
- When either the supplier or the recipient are outside Georgia, services related to the transfer of intellectual property rights, consulting, legal, accounting, engineering, data processing, staffing the lease of movable property (other than transportation vehicles), and services rendered electronically are supplied in the place where the recipient of the services derives the economic benefit from those services.

## VAT on importation

Unless expressly exempted under the law, imported goods are subject to 18% VAT during customs clearance. The taxable base is the customs value of the goods, plus the amount of any import duties and excise duties (if any). The imposition of VAT by Customs is not affected by whether the importer is registered with the tax authorities. VAT is required to be paid with the import duties within the period from 5 to 30 days after customs clearance.

Import of specific fixed assets/goods under the national Commodity Nomenclature of Foreign Economic Activities Codes 8401 – 9033 can be exempt from import VAT assuming that such assets/goods are not to be used in the operations

exempt from VAT without right to credit. For these purposes, the import operation should be disclosed in the VAT return.

#### 10.4 VAT-exemption with credit

Until 2010, certain goods and services were subject to 0% VAT. Under the new tax code that took effect from 1 January 2011, such transactions are now referred to VAT-exempt transactions with the right to credit (input tax).

The export of goods and the supply of services that are incidental to the export of goods are VAT-exempt with the right to credit. The same treatment also applies to the supply of international transport services (including transit through Georgia), tourist service packages provided to foreign tourists, the supply of gold to the National Bank of Georgia and the supply of natural gas to thermo-electric power stations.

#### 10.5 Transactions outside the scope of VAT

Georgian law distinguishes VAT-exempt transactions from transactions that are outside the scope of VAT. For example, professional services provided by a Georgian company to a non-resident that does not have a permanent establishment in Georgia have their place of supply outside Georgia, so are not subject to VAT.

In effect, such transactions have the same treatment as VAT-exempt transactions with the right to credit. Non-taxable sales are not taken into consideration in determining the portion of creditable VAT input tax (see Section 11.8).



#### 10.6 Exempt supplies without right to credit

- A number of transactions are exempt from VAT without the right to credit, including:
- Financial services.
- Supply and importation of securities.
- Importation of materials and semi-finished goods intended for producing export goods.
- Supply of assets within the state privatisation process.
- Importation of machinery, means of transportation, spare parts and materials needed for the oil and gas industry, as well as the supply of goods and services necessary to implement oil and gas operations by investors and operating companies.
- Importation or supply of currency, securities and contributions to equity capital.
- Supplies of goods or services between enterprises in a Free Industrial Zone.

The transfer of all of the business assets (or a complete business unit) between VAT taxpayers is not subject to VAT if the recipient notifies the tax authorities within 15 days of the supply. The supply of assets in the reorganisation of an entity is also not subject to VAT.

#### 10.7 Taxable amount

In most cases, the amount of VAT will be determined based on the transaction price for the supply of goods or services.

If the tax authorities can demonstrate that the market price is different from the transaction price, the authorities may substitute the market price for VAT purposes.

When goods and services are provided to employees free of charge or goods or services are used for non-commercial purposes, the supplier is required to account for VAT based on the market value of the goods or services.

The amount of VAT must be incorporated into the stated sales price (e.g., the shelf price for shop goods is inclusive of VAT).

#### 10.8 Non-deductible input VAT

The general rules for VAT input tax credits are:

- VAT paid on goods and services that will be used to make taxable sales or VAT-exempt sales with credit may be claimed as an input tax credit.
- VAT incurred to purchase or import goods and services that will be used to make sales that are VAT-exempt without credit may not be claimed as a credit.

- When goods and services will be used to make partly taxable and partly non-taxable sales, and it is not possible to identify directly the input tax connected with taxable transactions:
  - The input tax credit is apportioned between the taxable and non-taxable sales. The initial credit for fixed assets (including self-produced assets) depends on the proportion of VAT-exempt (without right to credit) sales to total sales for the previous tax year. For other purchases, the initial credit is based on the proportion of VAT-exempt without right to credit VAT sales to total sales for the quarter.
  - An adjustment is made in the December return to reflect the proportion of VAT-exempt without right to credit VAT sales to total sales for the calendar year. However, no adjustment is required in the December quarter if the taxpayer's exempted transactions without right to offset VAT represent less than 5% of total turnover.

A claim for input tax must be supported by a VAT invoice issued by a supplier or a duly executed import customs declaration.

An input tax credit may not be claimed for:

- Goods and services intended for non-economic activities.
- Expenses related to charity, social and entertainment events.
- Invoices that do not allow the seller of the goods or services to be identified, or that are not included in a VAT return by the end of the quarter following the one in which goods or services were acquired.

Generally, VAT paid that is not able to be claimed as input tax credit is treated as part of the cost of acquisition for purposes of profit tax or income tax.

## 10.9 VAT compliance

### Information on VAT invoice

If requested by the buyer, a VAT-registered person is required to issue a VAT invoice for every taxable sale of goods or services no later than 30 days after the request.

The invoice must include data on the parties involved in the transaction, the nature of transaction, the date of the transaction and the amount of the transaction. VAT invoices are restricted accounting invoices that are issued or provided by the tax authorities.

When a sale is made that involves the joint supply of taxable and exempt goods or services, the taxable and exempt portions are treated as separate transactions and must be documented separately.

### VAT liability

The VAT liability is calculated using the input-output method. The VAT liability in any accounting period will be the total amount of output tax charged on sales, less the input VAT paid relating to taxable sales.

### Reverse charge

Services supplied in Georgia by non-residents that are not registered in Georgia are subject to a VAT reverse charge. The VAT registered recipient must include the transactions in their VAT return for the month and at the same time is entitled to claim input tax credit for the assessed tax in the same month providing that it does not have turnover exempt from VAT without right to credit.

Taxpayers not registered as a VAT payers have to pay the corresponding VAT to the budget on the 15th day of the following month.

One practical issue that non-resident suppliers need to be conscious of is that the law does not clearly state who should bear the cost of the VAT. To reduce the risk of dispute, the supplier of services should make it clear up front that VAT will be for the account of the local entity (in principle, the local entity will be entitled to claim an input tax credit), and ensure that this is reflected in any contractual arrangements that are concluded.

### Returns and payments

The VAT accounting period is a calendar month. A taxpayer is obliged to submit a VAT return to the local tax authorities and pay VAT tax within 15 days after the end of the accounting period.

### Penalties

A number of specific penalties apply for VAT offenses:

- A penalty of 200% of credited amount applies if a taxpayer claims an input tax credit based on a real or forged invoice relating to a fictitious transaction.
- Operating without VAT registration is subject to a penalty of 5% of the VAT taxable operations.
- Failing to provide the purchaser of good or services with a VAT invoice upon request is subject to a penalty of 100% of the VAT amount for the sale.

### Refunds

Excess input tax arising from export sales or the purchase or production of fixed assets should be refunded within one month. In other cases, the excess should be carried forward and offset against future VAT liabilities or can be refunded within one month.

In practise, obtaining a refund can be a time-consuming process. To speed the process, many companies apply the overpaid VAT to meet other tax obligations, rather than receiving a refund in cash.

According to the amendment to the Georgian Tax Code made in December 2017, A VAT payer of an EU member state is entitled to the refund of VAT paid, when purchasing goods (other than real property) and/or services in Georgia, or when importing goods

to Georgia subject to the conditions set out in the Georgian Tax Code.

# Introduction to PwC

11



# 11 Introduction to PwC

## 11.1 PwC worldwide organisation

PricewaterhouseCoopers Global (PwC) is one of the world's most extensive networks of professional services firms. In its current form, the network of firms was established in 1998 through the merger of Price Waterhouse and Coopers & Lybrand, both of which were headquartered in London.

PwC Global operates in 158 countries and employs more than 236,000 people. PwC helps organisations and individuals create the value they are looking for, by delivering quality in assurance, tax, legal and advisory services.

Firm's clients range from the world's leading multinational companies to new and growing enterprises, from large family businesses and governments to NGOs, and private individuals. The company aims to create trust in society and solve important problems.

## 11.2 PwC in Georgia

PwC has been serving clients in Georgia since 1996, and in September 2005 opened an office in Tbilisi. Over the past years, the Firm has made significant investments in the local economy and community and will continue to do so. Having started with 15 people, PwC Georgia now employs about 100 staff. PwC Georgia serves business organizations, government bodies and public associations bringing to them the benefit of 150 years of expertise, high end knowledge, and practical experience accumulated in PwC globally.

From the base of core services – assurance and tax advice – over the past few years PwC Georgia has responded to the needs of the clients by expanding their capabilities into the areas of legal advice, business advisory services and training, through the PwC Academy. In addition to the quality of the services PwC provides to the clients, they are fully committed to the development of their people. In the past years PwC Georgia has trained and developed a large number of high quality professionals, and thus contributed in development of business community in Georgia.

The Firm's continuous presence in the region has been possible as a result of our vision and commitment and PwC Georgia's continues work to support the country on its journey to prosperity.

## Assurance Services

Assurance Services provides assurance on the financial performance and operations of our clients' business, through external and internal audits, financial and accounting reviews and investigations, regulatory consulting and training courses.

PwC 's knowledge and experience enables our specialists to advise not only on assurance matters, but also to put them in context and to advise on the likely impact that the pace and direction of economic and financial change will have on a commercial activity in Georgia.

Available Assurance services include:

**Audit:** Statutory and regulatory audit and treasury services. Our audit is aligned with business functions, not just financial processes. Businesses need auditors and advisors who understand their strategy and can reflect this in their audit approach. Using our approach and working alongside our clients, our lead partner provides strong control from the centre. We put great emphasis on understanding our clients' strategy and the need to address all risks. This approach represents, we believe, an important step forward in client service, audit quality and efficiency.

**Accounting and regulatory advice:** Corporate structures, technical accounting advice (supported by Global Corporate Reporting (GCR)), review of treasury operations, compliance with current and new regulations.

**Attest and attest-related services:** Independent assessment of financial and non-financial data.

**Public services audit and advisory:** Audit, internal audit and associated services for government, education and other non-profit organisations.

## Advisory services

We provide advice and assistance based on our extensive financial, analytical and business process skills to corporations, government bodies and intermediaries in the implementation of their strategy relating to:

- Performance Improvement.
- Corporate governance solutions.
- Operational effectiveness.

- Transaction Services.

### Tax Services

Effective tax planning is vital for the growth and development of any organisation. Very few major business decisions can be taken without considering their tax implications. In Georgia, where the tax and legal system is complex and subject to constant revision, professional advice is even more of a necessity to achieve success.

Our team of local and expatriate professionals have the skills and experience in all areas of taxation – corporate and personal, direct and indirect – to help clients maximise their tax advantages and minimise their exposures. We advise international companies based upon our knowledge of Georgian tax legislation and its interrelationship with national and international laws and also treaties. This knowledge, together with our focus on specific markets and industries, helps us to add value to our clients' businesses and give them the edge they need in the marketplace.

Specific tax areas where we can assist include:

**Corporate tax:** We advise clients based on Georgian laws and their interpretation by tax authorities, as well as their interrelation with international regulations and treaties. We advise on all aspects of inward investments into Georgia, and the structuring of those investments in terms of corporate income tax, withholding tax, dividend tax and local tax regulations. The team provides proactive advice on international tax planning and structuring, mergers and restructuring, and undertakes company health checks and due diligence projects, as well as assistance with tax authorities (during tax inspections and lodging of objections).

**Value added tax (VAT):** We help clients resolve complex issues related to indirect taxes, including VAT consultancy and tax reviews, VAT planning and efficiency schemes for domestic and cross-border operations, assistance during tax inspections, and support and advice during appeals.

**Personal tax:** Our services related to individuals range from assisting with obtaining residence permits to advice and assistance with all matters regarding Georgia's personal income taxation legislation and social security system.

**Compliance services:** With the increasing focus on governance and regulation, tax compliance has never been so important. Compliance failure represents not only a financial risk but also a serious business risk, as it can damage the reputation of a business with the authorities and the public. PwC can help you manage your tax compliance issues, risks and opportunities, allowing you to have firm control. We can help you, both within Georgia and cross-border, with preparing and reviewing tax returns and computations, negotiating with tax authorities, corporate income tax,

indirect tax, property and land tax compliance, and payroll.

### Legal Services

PwC Georgia Legal Services offers a full range of legal support in corporate and commercial law, corporate reorganizations, corporate secretarial work, M&A, competition compliance & litigation, secured transactions, employment law, immigration, construction law and other.

### Corporate Governance

Corporate legal framework in Georgia is quite liberal and unrestrictive, but at the same time does not provide proper guidance how to resolve range of corporate legal matters. We are not only up-to-date with the current corporate law requirements, but provide best practice advice fitted and suited to clients individual needs. Our services includes the following:

- Providing full legal support in relation to entity set-up;
- Advising on corporate forms and structuring;
- Drafting corporate charters, shareholder agreements, by-laws;
- Registration of corporate changes, directors, shareholders, legal address, etc.;
- Arranging for translation, notarization, apostil certification and filings with Public registry and other relevant authorities;
- Drafting Shareholder and Board Director Resolutions;
- Arranging Shareholder Meetings; preparing Minutes of the Meetings;
- Providing advice in relation to general compliance with corporate governance requirements;

### Employment matter

Employment law in Georgia has undergone significant changes in recent years, becoming more demanding for employers. Our team has extensive experience in employment matters, has been at the forefront of the changes and is best positioned to advice on the ways to achieve the employment objectives set by the clients.

- Drafting employment contracts, templates/standard contracts for low level employees as well as contracts for executive level employees.
- Drafting and advising on employee handbooks and policies.
- Advising on employment termination, vacation, leaves, over-time hours, working conditions, etc.

- Negotiations with trade unions, employees.
- Representation in non-complex employment disputes.

### **Routine Commercial Matters**

We assist clients in all aspects of their routine commercial operations. Our lawyers have extensive experience in drafting complex and non-complex commercial agreements, assisting clients in negotiations, advising on proper legal instruments to achieve their business objectives.

- Drafting, advising and reviewing on non-complex security, suretyship, mortgage, pledge agreements.
- Drafting, advising and reviewing ongoing, non-complex sale and purchase agreements.
- Filings with Public Registry and other immovable property.
- High-level checks of the legal standing of the contracting parties, mortgage/pledge on their property, tax obligations, public restrictions, etc.
- Assistance in day-to-day non-complex negotiations with contractors, suppliers, purchasers, customers, etc.

### **Immigration**

We deal with our clients' immigration matters on daily basis and help them bring their professionals in Georgia. We liaise with the Ministry of Foreign Affairs as well as with other relevant authorities and provide clients with swift advice on how to obtain and maintain legal presence of their personnel in Georgia.

- Advice on visas, residence permits, work permits, citizenship issues.
- Liaising with the Public Registry.
- Filings and applications to obtain respective documents.

### **Regulatory Compliance**

PwC Georgia through its Assurance, Advisory, Tax & Legal service lines covers all major business

industries and sectors. Our professionals have in-depth knowledge of the industry developments and regulations. No matter in which industry you are operating, we can add value by bringing to you updates and developments and provide advice to get and maintain compliance with applicable regulatory requirements.

- Advice on regulatory changes and impacts on the specific business activities of the client.
- Non-complex compliance checks with the respective legal requirements.
- Liaising and representing the client with the regulatory bodies.
- Filings, applications and secretarial support to maintain compliance with the respective regulations.
- Support during the regulatory supervisions and/or inspections.
- Advice with respect to licenses and permits.

### **Data Protection**

The Personal Data Protection Inspector is charged to oversee compliance of private companies with respective data protection and privacy requirement. We liaise with the Inspector's office and regularly update our clients on new policies and requirements that they need to comply with.

Full legal support on Personal Data Protection matters, including advice on duties of the Personal Data controller, Trans-border flow, filing system, catalogues registry, data security etc.

Advice on what information can be gathered by the companies, stored, maintained, and how respective requirements shall be complied with

Representing the companies with Inspector's Office

Filings, applications and representation during the Data Trans-border transaction permit obtaining process.

## Appendix 1: Tips for business visitors and useful links

### Travel to and within Georgia

Most international flights arrive at Tbilisi International Airport. The airport is a 20-30 minute drive from the centre of Tbilisi. The average cost of a ride from the airport is GEL 30, and the price should be negotiated before leaving the airport. It is advised only to use the marked taxis.

The Batumi International Airport now has flights to/from Istanbul. Arrival in Batumi's airport might be more convenient for those only doing business in the western part of the country, such as at the ports of Batumi and/or Poti.

Kutaisi International Airport also known as David the Builder (David Agmashenebeli) Kutaisi International Airport was officially opened in 2012, it is located 20 km west of Kutaisi. This is the first International Airport which offers customers low cost-airline services. Headquarters of most companies are in Tbilisi, a city of approximately 1.1 million people. Other major cities include Kutaisi, Telavi, Rustavi, Batumi, and Poti. Below are approximate travel times by car to these destinations:

- Kutaisi: 3½ - 4 hours
- Telavi: 2 hours
- Rustavi: 30 - 45 minutes
- Batumi: 5 - 6 hours
- Poti: 5 - 5½ hours

Travel by train is possible to most locations in western Georgia, but it is slower and less comfortable than travel by car.

### Normal business hours

Normal business hours are usually from 9 am till 6 pm including lunch hour, but we would note that many businesses are not open before 10. It is unlikely that meetings with Georgian businessmen will take place early in the morning or even begin on time. It is more common for early evening meetings to be scheduled, usually over a long dinner.

### Statutory holidays

|                       |                   |
|-----------------------|-------------------|
| January 1, 2 .....    | New Year Holidays |
| January 7 .....       | Christmas         |
| January 19 .....      | Epiphany          |
| March 3 .....         | Mother's Day      |
| March 8 .....         | Women's Day       |
| May 9 .....           | Victory Day       |
| May 12 .....          | St. Andrew's Day  |
| May 26.....           | Independence Day  |
| August 28 .....       | St. Mariam's Day  |
| October 14 .....      | Mtskheta Day      |
| November 23.....      | St. George's Day  |
| Easter Holidays ..... | (2 days)          |

Independence Day is celebrated on 26 May, as 26 May 1918 was the date of independence from Soviet Russia. The date of independence from the Soviet Union was 9 April 1991.

### Useful links

Parliament of Georgia  
[www.parliament.ge](http://www.parliament.ge)

Ministry of Finance of Georgia  
[www.mof.ge](http://www.mof.ge)

Ministry of Foreign Affairs of Georgia  
[www.mfa.gov.ge](http://www.mfa.gov.ge)

National Bank of Georgia  
[www.nbg.gov.ge](http://www.nbg.gov.ge)

Ministry of Justice of Georgia  
[www.justice.gov.ge](http://www.justice.gov.ge)

Georgian National Investment Agency  
[www.investingeorgia.org/](http://www.investingeorgia.org/)

Investment guide of American Chamber of Commerce  
[www.investmentguide.ge/](http://www.investmentguide.ge/)

American Chamber of Commerce  
[www.amcham.ge](http://www.amcham.ge)

## Appendix 2: Taxes at a glance

| Standard tax rates  | As of 30 September 2018 |
|---|-------------------------|
| <b>Personal income tax</b>  |                         |
| • Salaries and employer-provided benefits (withheld at source)  | 20%                     |
| • Other income not from economic activity (rental income, sale of assets)   |                         |
| <b>Corporate income tax</b>   | 15%                     |
| <b>Value added tax</b>  | 0% or 18%               |
| <b>Property tax – individuals</b>   | Up to 1%                |
| <b>Property tax – corporate</b>   | Up to 1%                |
| <b>Customs duties</b>   | 0%, 5% or 12%           |
| <b>Dividends paid to resident individuals and non-resident entity</b>   |                         |
|   | 5%                      |
| <b>Dividends paid to resident companies</b>   |                         |
|   | 0%                      |
| <b>Interest paid by a licensed financial institution</b>  |                         |
|   | 0%                      |
| <b>Interest paid by a private entrepreneur</b>  |                         |
|   | 5%                      |
| <b>Interest paid by a legal entity that is not a licensed financial institution (this is a final tax for individuals and a creditable tax for legal entities)</b> |                         |
|   | 5%                      |
| <b>Management fees</b>  |                         |
|   | 10%                     |
| <b>Insurance premiums</b>   |                         |
|   | 0%                      |
| <b>Royalties</b>  |                         |
|   | 5%                      |
| <b>Income from international transport or international communications</b>  |                         |
|   | 10%                     |
| <b>Income from oil and gas operations</b>   |                         |
|   | 4%                      |
| <b>Other Georgian-source income that is not connected to a permanent establishment a foreign company has in Georgia</b>   |                         |
|   | 10%                     |

| Monthly filing obligations  | Tax payment deadline   | Return filing deadline           |
|---|--|----------------------------------|
| <b>Corporate income tax</b>   | 15th of following month  | <b>15th of following month</b>   |
| <b>Personal or corporate income tax subject to withholding at the source of payment</b> | Upon payment of income   | <b>15th of following month</b>   |
| <b>Value added tax</b>  | 15th of following month  | <b>15th of following month</b>   |
| <b>Excise tax</b>   | 15th of following month  | <b>15th of following month</b>   |
| <b>Corporate income tax* and Personal income tax (individual entrepreneurs)</b>         | Tax payments are made during the tax year in four equal instalments at 25% of the previous tax year's liability by 15 May, 15 July, 15 September and 15 December. The adjustment payment is made by 1 April of the following year. | <b>1 April of following year</b> |
| <b>Income tax (individuals)</b>   | 1 April of following year  | <b>1 April of following year</b> |
| <b>Property tax (individuals)</b>   | 15 November of following year  | <b>1 November of tax year</b>    |
| <b>Property tax (on land for entities)</b>  | 15 November of tax year  | <b>1 April of tax year</b>       |
| <b>Property tax (except land for entities)</b>  | Current tax payment is made by 15 June of the tax year; the adjusted payment is made by 1 April of the following year  | <b>1 April of following year</b> |

\*Commercial banks, credit unions, insurance companies, microfinance companies and pawnshops will switch to new CIT regime after 1 January 2023. Therefore, those entities must file annual corporate income tax return on 2018-2022 reporting period.

## Appendix 3: Withholding taxes at 31 October 2017

Georgia has adopted low rates of withholding tax in its domestic law. As a consequence, the maximum tax rates specified in treaties often exceed the rate applicable under domestic law, which is 5%. Therefore, where a cap exceeds 5% under the treaty, the applicable rate would be 5%.

|                | Dividends        | Interest (1) | Royalties    |
|----------------|------------------|--------------|--------------|
| Country        | %                | %            | %            |
| Non-treaty     | 5%               | 5%           | 5%           |
| Armenia        | 5% / 10%         | 10%          | 5%           |
| Austria(2)     | 0% / 5% / 10%    | 0%           | 0%           |
| Azerbaijan     | 10%              | 10%          | 10%          |
| Bahrain        | 0%               | 0%           | 0%           |
| Belarus        | 5% / 10%         | 5%           | 5%           |
| Belgium        | 5% / 15%         | 10%          | 5% / 10% (3) |
| Bulgaria       | 10%              | 10%          | 10%          |
| China          | 0% / 5% / 10%(2) | 10%          | 5%           |
| Croatia        | 5%               | 5%           | 5%           |
| Cyprus         | 0%               | 0%           | 0%           |
| Czech Republic | 5% / 10%         | 8%           | 5% / 10% (4) |
| Denmark        | 0% / 5% / 10%(2) | 0%           | 0%           |
| Egypt          | 10%              | 10%          | 10%          |
| Estonia        | 0%               | 0%           | 0%           |
| Finland        | 0% / 5% / 10%(2) | 0%           | 0%           |
| France         | 0% / 5% / 10%    | 0% (5)       | 0%           |
| Germany        | 0% / 5% / 10%(6) | 0%, 5%       | 0%           |
| Greece         | 8%               | 8%           | 5%           |
| Hungary        | 0% / 5%          | 0%           | 0%           |
| Iceland        | 5% / 10%         | 5%           | 5%           |
| India          | 10%              | 10%          | 10%          |
| Iran           | 5% / 10%         | 10%          | 5%           |
| Ireland        | 0% / 5% / 10%    | 0%           | 0%           |
| Israel         | 5%               | 0% / 5%      | 0%           |
| Italy          | 5% / 10%         | 0%           | 0%           |
| Japan          | 15%              | 0% / 10%     | 0% / 10%     |
| Kazakhstan     | 15%              | 10%          | 10%          |
| Korea          | 5% / 10%         | 10%          | 10%          |
| Kuwait         | 0% / 5%          | 0%           | 10%          |
| Latvia         | 5% / 10%         | 5%           | 5%           |
| Liechtenstein  | 0%               | 0%           | 0%           |
| Lithuania      | 5% / 15%         | 10%          | 10%          |
| Luxemburg      | 0% / 5% / 10%    | 0%           | 0%           |
| Malta          | 0%               | 0%           | 0%           |
| Moldova        | 5%               | 5%           | 5%           |
| Netherlands    | 0% / 5% / 15%(2) | 0%           | 0%           |
| Norway         | 5% / 10%         | 0%           | 0%           |
| Poland         | 10%              | 10%          | 10%          |
| Portugal       | 5% / 10%         | 10%          | 5%           |
| Qatar          | 0%               | 0%           | 0%           |
| Rumania        | 8%               | 10%          | 5%           |
| San-Marino     | 0%               | 0%           | 0%           |
| Serbia         | 5% / 10%         | 10%          | 10%          |
| Singapore      | 0%               | 0%           | 0%           |
| Slovakia       | 0%               | 5%           | 5%           |
| Slovenia       | 5%               | 5%           | 5%           |
| Spain          | 0% / 10%         | 0%           | 0%           |
| Sweden         | 0% / 10%         | 0%           | 0%           |
| Switzerland    | 10%              | 0%           | 0%           |
| Turkey         | 10%              | 10%          | 10%          |
| Turkmenistan   | 10%              | 10%          | 10%          |

|  |              |     |     |
|--|--------------|-----|-----|
| Ukraine  | 5% / 10%     | 10% | 10% |
| United Arab Emirates   | 0%           | 0%  | 0%  |
| United Kingdom   | 0% / 15% (7) | 0%  | 0%  |
| Uzbekistan   | 5% / 15%     | 10% | 10% |
| <ol style="list-style-type: none"> <li>1. Some agreements defines 0% rate on the interest paid by the government or any of its units or on the interest guaranteed by them; given table doesn't consider the similar provisions.</li> <li>2. The 0% rate applies if the foreign company owns at least 50% of the Georgian company and has invested more than EUR 2 million.</li> <li>3. Royalty rate paid for the enterprise is 5%.</li> <li>4. 0% rate refers to the copyright, any literature, art or scientific works (except the software) and films and records; 5% rate refers to lease of techniques.</li> <li>5. The 0% rate applies to interest on bank loans and commercial credits.</li> <li>6. The 0% rate applies if the German company owns at least 50% of the Georgian company and has invested more than EUR 3 million.</li> <li>7. The 0% rate applies if the foreign company owns at least 50% of the Georgian company and has invested more than GBP 2 million.</li> </ol> |              |     |     |

[www.pwc.com/ge](http://www.pwc.com/ge)